The Effects of Staff Accounting Bulletin 101

A Thesis

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Introduction

The Securities and Exchange Commission first issued Staff Accounting Bulletin 101 (SAB 101) in December 1999. This bulletin, titled "Revenue Recognition in Financial Statements" summarizes the Security and Exchange Commission's view of revenue recognition policies, which have been stated in the Generally Accepted Accounting Principles (GAAP). Therefore, these are not new policies, but are existing revenue issues given further explanation and guidance. This thesis examines the effect SAB 101 has on companies. Since the bulletin did not change GAAP, companies which change their revenue recognition polices reveal that they have interpreted current revenue recognition policies different from the intentions of the regulating bodies. After analyzing public companies reaction to SAB 101, the thesis then focuses on one specific industry, and examines the market's response to SAB 101 within that particular industry. The testing performed confirms the expectation that SAB 101 has had a significant impact on market prices of firms in the airline industry.

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Chapter 1
SAB 101 and Existing Revenue Recognition Policies

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101 (SAB 101) "Revenue Recognition in Financial Statements" in December of 1999 to offer public companies guidance on revenue recognition issues. According to Moddy, the bulletin was issued in "response to SEC Chair Arthur Levitt's concerns over financial reporting abuses and earnings management"(CPA Journal). The impact of SAB 101 has been felt most heavily in the biotechnology and computer sectors. Adoptions of SAB 101 have ranged from reporting an accounting error to reporting a cumulative effect, the latter being the most common response. The stock market's reaction to the reporting changes varies across firms and industries. This study focuses the market analysis on the airline sector. The tests performed reveal a significant positive impact from SAB 101 on a sample of airline firms. It is evident from this study that SAB 101 has had far reaching consequences and has drastically impacted financial reporting of revenue for SEC registrants.

The first chapter begins with a discussion on SAB 101, and its counterparts, SAB 99 and SAB 100. It will also explore existing revenue literature on which SAB 101 is based and discuss the options the staff gave registrants in adopting SAB 101. After understanding the purpose and significance of SAB 101, chapter 2 will begin an exploration into the details of SAB 101. It will relate each of the revenue topics SAB 101 covers to a specific company, which has been impacted by the issue, giving a realistic picture of the effect SAB 101 has had. Chapter 3 takes a step back to view the "big picture," and relies on a study performed by Bear Stearns, to learn exactly how many public firms and which firms have been affected, as well as how the firms have chosen to adopt the new bulletin. After knowing the affect SAB 101 has had on companies, Chapter 4 discusses why regulation such as SAB 101 exists as well as its connection to the stock market. It is important to realize the link between regulation and the stock market to understand the purpose of chapter 5. In this chapter, the study focuses on the airline industry and analyzes the effect SAB 101 has had on stock prices of a sample of firms. Lastly, chapter 6 reviews recent reactions to SAB 101 by auditors and the profession.

SAB 101 followed SAB 99 and SAB 100, all which were efforts by the staff to focus attention on earnings management. Based on the research of this thesis, it is evident SAB 101 has impacted numerous firms in a wide variety of industries. Staff Accounting Bulletin No. 99, issued August 13, 1999 expresses the views of the staff that exclusive reliance on certain quantitative benchmarks to assess materiality in preparing financial statements and performing audits of those financial statements is inappropriate. The main message of the No. 99 bulletin is that misstatements are not immaterial simply because they fall beneath a numerical threshold (U.S. SEC). Staff Accounting Bulletin No. 100, issued November 24, 1999, expresses views of the staff regarding the accounting for and disclosure of certain expenses commonly reported in connection with exit activities and business combinations. This includes the accrual of exit and employee termination costs pursuant to Emerging Issues Task Force (EITF) Issues No. 94-3 and No. 95-3, and the recognition of impairment charges pursuant to Accounting Principles Board (APB) Opinion No. 17 and Statement of Financial Accounting Standards (SFAS) No. 121 (U.S. SEC). Staff Accounting Bulletins are not new guidance initiated by the

SEC. Rather, they are interpretations and practices followed by staff of the Office of the Chief Accountant and the Division of Corporate Finance in administering the disclosure requirements of the federal securities law. Because SAB 101 is based on existing literature, it is necessary to review previous revenue recognition literature before examining the details of SAB 101.

The accounting literature on revenue recognition includes both broad conceptual discussions as well as certain industry-specific guidance. (See exhibit A for a list of existing literature on revenue recognition.) According to these guidelines and Generally Accepted Accounting Principles (GAAP), in order for revenue to be recognized it must be realized or realizable and earned. SAB 101 references SFAC No. 5, paragraph 83(b) which states that "an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues." SAB 101 also points to paragraph 84(a) of SFAC 5 which states "the two conditions (being realized or realizable and being earned) are usually met by the time product or merchandise is delivered or services are rendered to customers, and revenues from manufacturing and selling activities and gains and losses from sales of other assets are commonly recognized at time of sale (usually meaning delivery)." Paragraph 84 also states "If services are rendered or rights to use extended continuously over time, reliable measures based on contractual prices established in advance are commonly available and revenues may be recognized as earned as time passes." Based on these revenue concepts and those discussed below the staff reiterated the four main criteria that must be met for revenue to be realized or realizable and earned:

- Persuasive evidence of an arrangement exists.

  This criterion is based on SFAC No. 2, Qualitative Characteristics of Accounting Information, which states in paragraph 63 "Representational faithfulness is correspondence or agreement between a measure or description and the phenomenon it purports to represent." In order to determine the proper accounting treatment for a transaction, there must first be an "arrangement" or an agreed upon transaction in which both parties agree on the specific nature and terms of the transaction.

- Delivery has occurred or services have been rendered.

  The staff interpreted this criterion from SFAC No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, which states in paragraph 84, "Revenue should not be recognized until the seller has substantially accomplished what it must do pursuant to the terms of the arrangement, which usually occurs upon delivery or performance of the services". In other words, the seller must perform all agreed upon actions in order to make the transaction complete, at that point revenue may be recognized.

- The seller's price to the buyer is fixed or determinable.

  Once again the staff relied on SFAC No. 5, paragraph 83(a), to support this criterion. The staff also refers to SFAS No. 48 paragraph 6(a).

- Collectibility is reasonably assured.

While the staff does not go into great depth on this criterion in the questions, it does not eliminate it because it is a requirement to recognize revenue. The staff refers registrants to ARB No. 43, Chapter 1A and APB Opinion No. 10 paragraph 12 to support this criterion.

These four criteria listed in SAB 101 do not provide any new guidance that has not already been included in the concepts, opinions and statements on which they were based. What SAB 101 does which is new, is it takes these general revenue requirements, expands them, and relates them to specific cases in order to give better guidance as to when is the proper time to recognize revenue as well as the amount of revenue to recognize. It also helps to direct registrants where existing revenue recognition policies can be found.

In addition to these criteria, the staff also discussed Income Statement presentation issues as well as disclosure. The income statement presentation questions discuss where certain revenue types should appear on the income statement, as well as, how revenue should be calculated, gross versus net, in certain situations. With regards to disclosure, the staff stated that a company should always disclose its revenue recognition policy because revenue recognition generally involves some level of judgment. The disclosure should be composed of each revenue policy for each type of revenue (i.e. barter sales vs. commission sales). This is in accordance with APB Opinion No. 22, Disclosure of Accounting Policies, and should not come as a surprise to registrants. The staff simply wished to reinforce the existing literature.

As in all SEC pronouncements, the bulletin reported the effective dates in which to apply the criteria described. The staff stated in SAB 101 that all registrants are expected to apply the accounting and disclosures described in the bulletin no later than the first fiscal quarter of the fiscal year beginning after December 15, 1999. Since the issuance of SAB 101, the staff received requests from a number of groups asking for additional time to study the guidance. Many registrants have calendar year-ends and may need more time to perform a detailed review of the SAB since its issuance on December 3, 1999. Therefore the staff issued Staff Accounting Bulletin 101A on March 24, 2000, which delayed the implementation date of SAB 101 for registrants with fiscal years that begin between December 16, 1999 and March 15, 2000. Since the issuance of SAB 101 and SAB 101A, the staff continued to receive requests from a number of groups asking for additional time to determine the effect, if any, on registrant's revenue recognition practices. Therefore, the staff issued another bulletin on June 26, 2000, SAB 101B, which delayed the implementation date of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999.

In order to apply SAB 101, registrants need to know how to report the accounting changes. First, it is important to review the different options that exist in GAAP when recording accounting policy changes. A change in accounting principle involves a change from one generally accepted accounting principle to another. Before APB Opinion No. 20, three different methods were acceptable reporting changes in accounting principles:

- Retroactive – The company must compute the cumulative effect of the use of the new method on the financial statements at the beginning of the period. A retroactive adjustment of the financial statements is then made, restating the financial statements of prior years on a basis consistent with the newly adopted principle. –Leads to comparability and consistency

- Current – Once again, compute the cumulative effect of the new method, but this time it is recorded in the current year's income statement as a "special item" after extraordinary items and before net income. – argue that restatement results in a loss of confidence of financial statement users, and it may also lead to contractual issues which were based on the old figures.
- Prospective – No changes are made on prior period statements, nor is there a cumulative adjustment. Management cannot change prior periods by adopting a new principle.

However after, APB Opinion No. 20 other guidelines were established based on the type of change in accounting principle involved:

- Retroactive – The computed cumulative effect and the company restates prior period financial statements consistent with the newly adopted principle. Any part of the cumulative effect attributable to years prior to those presented is treated as an adjustment of beginning retained earnings of the earliest year presented. Five situations require such adjustment:
    - Change from LIFO to another inventory valuation method.
    - Change in valuation method for long-term constructive type contracts.
    - Change to or from "full cost" method in extractive industries.
    - Issuance of financial statements for the first time to obtain capital, effects a business combination, or register securities.

- A professional announcement recommends that a change in accounting principle be treated retroactively.

- Cumulative – The cumulative effect of the adjustment should be reported in the income statement between extraordinary items and net income. Financial statements for prior periods should not be restated. (Income before extraordinary items and net income, computed on a pro-forma basis, should be shown on the face of the income statement for all periods. They are presented as if the newly adopted principle had been applied during all periods affected.)

If the accounting principle previously followed was not acceptable, or if the principle was applied incorrectly, a change to a generally accepted accounting principle is considered a correction of error. APB No. 20 and FASB Statement No. 16 require that corrections of error be treated as prior period adjustments, be recorded in the year in which the error was discovered, and be reported in the financial statements as an adjustment to the beginning balance of retained earnings. If comparative statements are presented, the prior statements affected should be restated to correct for the error. The disclosures need not be repeated in the financial statements for subsequent periods.

Surprisingly, firms have the option of how to adopt SAB 101. Based on the fact that the bulletin is simply interpretations of guidance that previously existed, the original reaction would be any changes to revenue recognition policies made by registrants would have to be recorded as an accounting error. However, the staff stated it would not object if registrants that have not applied this accounting do not restate prior financial statements provided they report a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes. In addition registrants are expected in periods subsequent to the transition to disclose the amount of revenue recognized in those periods that was included in the cumulative effect adjustment. The staff also stated that if registrants have not previously complied with generally accepted accounting principles, for example, by recording revenue for products prior to delivery that did not comply with the applicable bill-and-hold guidance, those registrants should apply the guidance in APB Opinion No. 20 for the correction of an error. The SEC has not granted companies immunity from prosecution when complying with SAB 101. SAB 101 states that companies should be aware that the Commission might take enforcement action where a registrant in prior financial statements has violated the antifraud or disclosure provisions of the securities laws with respect to revenue recognition.

The majority of firms have applied SAB 101 as a cumulative adjustment. However, some firms have restated prior period financial statements. In most cases, the firms who have restated have done so because previous guidance existed which explained clearly what was the proper accounting treatment. Those who reported a cumulative adjustment simply interpreted the existing guidance differently that the commission. To aid in confusion regarding how to adopt SAB 101 and other issues, in October of 2000, the SEC issued SAB 101 implementation guidance in the form of a Frequently Asked Questions document (FAQ). The following chapter will explore more of the details of SAB 101 as well as companies whose accounting policies have changed as a result of the bulletin.

Chapter 2
Implications of SAB 101 – Company Specific

While the four criteria for revenue recognition stated in Chapter 1 seem fairly straightforward, applying them to specific situations usually involves a large amount of judgment and subjectivity. To illustrate how the SEC would interpret the four criteria in certain situations, the staff developed a series of questions and answers. In answering the series of questions, the staff reveals its view of how three of the criteria should be interpreted and bases its conclusion on existing guidance. The SEC also discussed two issues affecting income statement presentation. This chapter will review what the staff reports about each of the criterion and will discuss a company, which has been affected by the staff's interpretation.

Criterion 1 – Persuasive Evidence of an Arrangement Exists

The staff devotes two scenarios to this criterion. The first reveals that when a business has a practice of requiring written sales agreement, persuasiveness of evidence of an arrangement generally would require a final agreement that has been executed by the properly authorized personnel of the customer. If the customer and seller enter into a side agreement that affects revenue recognition, such as, cancellation or termination, it may indicate that the original document was not final and, therefore, revenue recognition not appropriate. The second scenario deals with goods on consignment. The staff believes that products delivered on consignment cannot be considered revenue until the sale has occurred because the seller retains the risks and rewards of ownership and title does not usually pass to the consignee. The staff went further to explain that even if title did pass to the buyer, the seller cannot recognize revenue if one of four conditions exist. The first condition is the buyer has the right to return the product and the buyer does not pay the seller at the time of sale[1], the buyer does not have to pay the seller until the buyer resells the product[2], in the event of theft the obligation of the buyer to pay the seller is forgiven[3], or the seller has significant obligations for future performance to directly bring about resale of the product by the buyer[4]. The second condition is the seller is required to repurchase the product at specified prices adjust only for inflation and holding costs and the amount paid by the seller will be sufficient to cover substantially all costs incurred by the buyer. The third condition is that the seller guarantees the resale value of equipment and the transaction does not qualify for sales-type leas accounting, and the fourth is the product is delivered for demonstration purposes only[5].

Based on a study performed by Bear Stearns that will be discussed later, no companies have reported implications of SAB 101 based on this criterion. This can possibly be explained by the fact that companies understood this criterion of revenue recognition and little subjectivity was necessary regarding existing literature on consignment goods.

Criterion 2 – Delivery and Performance

The staff reviews four different questions in discussing delivery and performance. Through these four questions, the staff reveals its view of six different situations:

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[1] SFAS No. 48, P6 (b) and 22.
[2] SFAS No. 48, P6(b) and 22. The arrangement may not specify that payment is contingent upon subsequent resale or consumption permitting customers to defer payment beyond the specified due dates until the products are resold or consumed, then the staff believes the sales price is contingent.
[3] SFAS No. 48, P6(c).
[4] SFAS No. 48, P6(e).
[5] See SOP 97-2, P25.

Delivery of Product, Bill and Hold, Licensing and Similar Arrangements, Layaway Programs, Up-Front Fees, and Service Revenue and Set-up Services.

The first of these situations is **Delivery of Product**. The staff believes that Delivery of Product has not occurred unless the customer has taken title to the product and has assumed the risks and rewards of ownership. This usually occurs when a product is delivered to the customer's delivery site (FOB destination) or when a product is shipped to a customer (FOB shipping point). This interpretation seems relatively straightforward. However, it has resulted in numerous companies changing their accounting policy.

The majority of companies who have reported an accounting change based on this specific part of SAB 101 are airlines. This thesis will focus more in depth on the airline industry in future chapters. **Trans World Airlines** (TWA) is one airline that reported an accounting change. Previously, the total purchase price of Aviator miles was recognized as revenue during the month of sale, net of estimated incremental cost of providing future air travel. Under the new accounting method, that portion of the revenue from the sale of miles which is estimated to reflect the fair value of the future transportation to be provided will be deferred and recognized in income when the transportation is provided. The remaining portion of the sale proceeds will continue to be recognized at the time of sale as other revenue. The Company believes this new method results in better matching of revenue with the period in which travel services are provided. The company adopted this policy first fiscal quarter of 2000 and recorded a cumulative adjustment to earnings of $12.8 million, increasing the companies net loss for the year by 20%.

The staff also covered **Bill and Hold** in which the staff discusses when it is possible to recognize revenue when delivery has not occurred. There are seven criteria, all which must be met in order to recognize revenue. These criteria are that the risks of ownership must have passed to the buyer, the customer must have made a fixed commitment to purchase the goods, the buyer must request that the transaction be on a bill and hold basis, there must be a fixed schedule for the delivery of the goods, the seller must not have retained any specific performance obligations, ordered goods must have been segregated from the seller's inventory, and equipment must be compete and ready for shipment. It is important to stress again that all of these criteria are met in order to recognize revenue when delivery has not occurred.

One company affected by this interpretation was **Cohu's Inc**. In the company's December 31, 2000 10-K, the company reported, effective January 1, 2000, the Company changed its method of revenue recognition for certain semiconductor equipment sales to comply with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 sets forth guidelines on the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance. Prior to SAB 101, the Company generally recognized revenue upon shipment once customer acceptance provisions had been met. Revenue for established products that have previously satisfied customer acceptance requirements and that provide for full payment tied to shipment is generally recognized upon shipment and passage of title. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. In certain instances, customer payment terms may provide that a minority portion of the equipment purchase price be paid only upon customer acceptance. In those situations, the portion of the purchase price related to customer acceptance is generally recognized upon customer acceptance with the majority portion of revenue and the entire product cost recognized upon shipment and passage of title. Equipment installation is typically provided by the Company and is generally not billed separately to the customer. The estimated fair value of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized ratably over the period of the related contract. The gross profit on sales that are not recognized is generally recorded as deferred. In accordance with SAB 101, the new method of accounting has been applied retroactively to transactions that occurred prior to 2000. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of $3.3 million (after credit for income taxes of $1.7 million) and is included in income for the year ended December 31, 2000. This resulted in a reduction in net income of 9% in 2000.

Licensing and similar arrangements also fall under Delivery and Performance. The staff stated that in licensing and similar arrangements such as licenses of motion pictures, software, technology and other intangibles, delivery does not occur for revenue recognition until the license term begins.[6] In other words, if a licensed product is physically delivered to the customer, but the license term has not yet begun, revenue should not be recognized prior to the inception of the license term.

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[6] SFAS No. 53, *Financial Reporting by Producers and Distributors of Motion Picture Films*, P6. The FASB has issued an Exposure Standards Executive Committee intends to issue a new SOP that would replace SFAS No. 53 and provide authoritative guidance or proposed new SOP contains a similar criterion for revenue recognition of a licensed film.

Once again, a relatively straightforward concept, however, companies had interpreted previous literature regarding licensing arrangements differently. For example, Aquila Biopharm, reported in its third quarter of 2000 that SAB 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues, as well as examples of how the staff applies revenue recognition guidance to specific circumstances. In June 2000, the SEC issued Staff Accounting Bulletin 101B delaying the implementation of SAB 101 for six months. Accordingly, in the fourth quarter of 2000 Aquila will change its accounting for initial license fees. Through the first half of 2000 revenue was recognized when the agreement was reached and no contingent factors were present. Under the new guidance of SAB 101, revenue will be deferred and recognized ratably over the appropriate life. In the fourth quarter of 2000, a cumulative adjustment will be recorded retroactive to January 1, 2000 to create deferred revenue that will be recognized over future years.

The fourth business transaction discussed under Delivery and Performance is **Layaway Programs**. The staff believes that revenue from layaway programs cannot be recognized until delivery of the merchandise to the customer has occurred. Until this point, the cash received as deposits on the merchandise should be recognized as a liability entitled such as "deposits received from customers for layaway sales". The staff believes this is consistent with other revenue recognition literature because the company retains the risks of ownership of the merchandise, receives only a deposit from the customer, and does not have an enforceable right to the remainder of the purchase price. Deposit is simply not enough to qualify for revenue recognition. The staff states that the customer must have a fixed commitment to purchase the goods.

One company affected by the staff's view of Layaway programs is **Weiner's Stores, Inc**. The company reported in their January 29, 2000 10-K that the Company offers a layaway program pursuant to which its customers are permitted to purchase merchandise currently available for sale and pay for the goods over a 30 to 60 day period. At the time of the sale, the goods are segregated from the Company's inventory and held for the benefit of the customer pending payment in full for the goods. In 1999, the Company's layaway program accounted for approximately 9.4% of the Company's revenues. Layaways are recognized as revenue at the point of sale and as a receivable on the balance sheet (net layaway receivables at January 29, 2000 were $510,000 as compared to $847,000 at January 30, 1999). The Company provided an allowance for layaway sales receivables based on management's estimate of the amount by which uncollected receivables would exceed the cost of the items reverting back to inventory. This estimate was based on the Company's historical calculation of layaway sales that will never be completed. The Company generally required a refundable deposit on layaway sales. As customers paid off the balance on their layaway purchases, the payment reduced the corresponding receivable. SAB 101 requires that layaway sales be treated in a manner consistent with such request. As a result of the Staff's request and the subsequent issuance of SAB 101, the Company changed its treatment regarding revenue recognition of layaway sales commencing on the first day of the Company's fiscal year beginning January 30, 2000 to be consistent with the Staff's recommendation. The impact of this change in revenue recognition of layaway sales was very difficult to quantify because of information system constraints regarding the historical information of payments relating to specific transactions. The Company has implemented all provisions of SAB 101, including the treatment of leased department and layaway sales, effective for fiscal year 2000, beginning January 30, 2000. In relation to the adoption of SAB.101, the Company recorded during the first quarter of 2000 a cumulative effect adjustment for a change in accounting in the amount of $294,000 and recognized additional gross revenues of $851,000, resulting in a net cumulative adjustment to income, net of tax of -.1%. These one-time adjustments were necessary to correctly account for those layaways held as accounts receivable at the end of fiscal year 1999.

Another transaction that is included in Delivery and Performance is **Upfront Fees**. The staff states that unless the nonrefundable fee is in exchange for products delivered or services performed that represent a separate earnings process[7], the deferral of revenue is appropriate and should be recognized systematically over the periods the fees are earned. The staff supports this view by explaining that the companies do not sell the initial rights, products, or services separately (i.e. without the companies' continuing involvement) supports the staff's view. The staff believes the customers are purchasing the on-going rights, products, or services being provided through the company's continuing involvement.

Cendant is one of the companies who reported an accounting change regarding upfront fees. The company previously recognized non-refundable one-time fees at the time of contract execution and cash receipt. The policy was changed to recognition of non-refundable one-time fees on a straight-line basis over the life of the underlying contract. The company previously recognized pro rata refundable subscription revenue equal to procurement costs upon initiation of a subscription. Additionally, the amount in excess of procurement costs is recognized over the subscription period. This policy was changed to recognition of pro rata refundable subscription revenue on a straight-line basis over the subscription period. Procurement costs will continue to be expensed as incurred. The adoption of these accounting changes resulted in a charge of approximately $89 million ($56 million net of tax) on January 1, 2000, decreasing income by 8.5%.

The last issue under Delivery and Performance that the staff highlighted is **Service Revenue and Set-up Fees.** The staff believes that service revenue should be recognized on a straight-line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed[8], whichever is longer. Like the staff's view on Upfront Fee's, the staff supports this rule by explaining that the customer typically could not, and would not separately purchase set-up services without the on-going service. Therefore, the staff objects to a company recording revenue in proportion to the costs incurred because, in the staff's view, the set-up costs bear no direct relationship to the performance of services specified in the arrangement.

Towne Services is one company who reported a cumulative change due to a change in accounting principal regarding Set-up Fees. In the December 31, 1999 10-K, the company stated that the reported cumulative affect of an accounting change during 1999 in the amount of $3.2 million was related to revenue recognition of its initial set-up fees, increasing the companies net loss for the year by 25.7%. The company reported that bank set-up fees include charges for installation, implementation and training of our bank

[7] See SFAC No. 5, footnote 51, for a description of the "earnings process."

[8] The revenue recognition period should extend beyond the initial contractual period if the relationship with the customer is expected to benefit from the payment of the up-front fee (e.g. if subsequent renewals are priced at a bargain to the initial up-front fee)

and business customers. In response to the issuance of the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," ("SAB No. 101") we began recognizing all revenues from set-up fees on a deferred basis over the estimated life of the contract terms and for certain cancellation clauses and/or return guarantees until the guarantee period is expired. The effects of this change in accounting principle were applied cumulatively as of the beginning of the fourth quarter of 1999. Prior to the adoption of SAB No. 101, we recognized set-up fees upon execution of the related contract. Set-up fees charged to each bank vary depending on the asset size of the bank and the number of communities served.

Criterion 3 – Fixed or Determinable Sales Price

The staff developed three questions and answers which gave more guidance regarding business transactions which involve refundable membership fees, reasonable and reliable estimates of return, contingent rent, gross versus net, and sales of leased or licensed departments. These issues mainly relate to “side” agreements, such as, cancellation or termination clauses, and are contractual provisions, which raise question as to whether the sales price is fixed or determinable. It important to note that short-term rights of return, such as thirty-day money backed guarantees, and other customary rights to return products are not considered to be cancellation privileges and should be accounted for in accordance with SFAS No. 48.

The first scenario the staff considered under this criterion is in regards to **refundable membership fees** and whether a company that gives their members the right to cancel the arrangement at any time during its term and receive a full refund of the initial fee can recognize the revenue of the initial fee. Generally, the staff believes that a sales price is not fixed or determinable when a customer has the unilateral right to terminate or cancel the contract and receive a cash refund. However, the staff stated that they would not object to revenue being recorded if it was booked net of estimated refunds and the estimated refunds are based on a large pool of homogenous items, reliable estimates of expected refunds can be made on a timely basis[9], there is sufficient company-specific historical evidence upon which to base the estimated refunds[10], and the amount of the membership fee specified in the agreement at the beginning of the membership is fixed. If all of these conditions are not met, revenue must be deferred until the cancellation privileges and refund rights expire.

One company who found that they did not meet all of the criteria outlined by the staff was **Memberworks**. In their 10-K for the year ending June 30, 2000, the company reported that it plans to voluntarily adopt the full deferral method of accounting for membership fee revenue for all of the Company's membership programs having full refund privileges effective July 1, 2000. Consequently, membership fees having full refund privileges, and the related direct costs associated with acquiring the underlying memberships, will no longer be recognized on a prorata basis over the corresponding membership periods, but instead will be recognized in earnings upon the expiration of membership refund privileges. If SAB 101 had been adopted effective July 1, 1999, the cumulative effect of the accounting change would have been a one-time non-cash charge of $38.4 million. The impact of the change for the fiscal year ended June 30, 2000 would have been to increase revenues by $13.4 million and increase net income before the

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[9] Reliability is defined in SFAC No. 2 as "the quality of information that assures that information is reasonably free from error and bias. Paragraph 63 of SFAC No. 5 reiterates the definition of reliability, requiring that "the information is representationally faithful, verification."

cumulative effect of the accounting change by $12.2 million, or $0.72 per diluted share. The amounts for the fiscal year ended June 30, 2000 include a portion of the membership fees and associated direct costs previously recognized in fiscal 1999 earnings. While management has not yet completed its analysis of the impact, the amount of the one-time non-cash charge to be recorded as of July 1, 2000 is estimated to be between $27 million and $30 million. The cumulative effect of the change at July 1, 2000 represents the deferral of previously recognized membership fees net of estimated refunds and associated direct costs. The membership fees, net of estimated refunds and associated direct costs, which will be deferred as part of the cumulative effect adjustment at July 1, 2000, will be recognized in earnings during fiscal year 2001 as the underlying refund privileges expire. As a result of this change in accounting, fiscal 2001 results will be adversely affected. The Company expects this change to result in a reduction of earnings of $10 million to $13 million, or $0.67 per share to $0.87 per share. The estimated adverse impact of the accounting change on net income is due to a delay in the revenue, net of direct costs, without a corresponding delay in increasing operating and general and administrative costs necessary for the continued growth of the Company's membership base. This change in accounting for the recognition of membership fees in income will have no impact on the Company's cash flows or on the economic value of the underlying memberships.

The staff continues the analysis of returns expanding it to not only membership fees but also all product returns, such as retail or manufacturing. The staff believes that **reasonable and reliable estimates of returns** cannot be made if the termination,

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[10] Paragraph 8 of SFAS No. 48 notes various factors that may impair the ability to make a reasonable estimate of returns.

cancellation, or refund period exceeds one year. The staff also communicated other factors which may inhibit a company from making reliable estimations of refunds, such as, "channel stuffing," obsolescence of existing products resulting from expectations of new products, newness of products or introduction of competitors' products with superior technology or greater market acceptance. These factors are new items that should be considered, which can be added to the factors already provided by SFAS No. 48 in paragraph 8.

Goody's Family Clothing, is a company who reacted to this bulletin, but in the reverse direction that would be expected. Goody's, historically, had recognized sales returns upon return of the related merchandise. The company stated in their January 29, 2000 10-K that "Sales" and "Cost of sales and occupancy expenses" for fiscal 1998 (and all quarters of that year) and fiscal 1997 have been restated to accrue for sales returns and adopt a change in accounting methodology related to leased departments in response to SAB No. 101. Under the new policy based on SAB 101, the company provides an estimate of sales returns in the period of the initial sale. These changes in accounting had no impact on annual gross profit or net earnings for those fiscal years, but did impact the statements of operations for each quarter of fiscal 1998.

The next transaction the staff discusses is **contingent rent**. Contingent rent results for example if a store leases a section of the mall, and pays the owner of the mall a base lease payment of $90,000 twice a year and 1% of total sales above $1,000,000 for six months. In the staff's view, rental income that is contingent on a factor other than the passage of time should be recorded in income in the period in which the contingency is resolved. The staff believes it is in appropriate to record revenue based upon the probability of a factor being achieved. The staff relied on SFAS No.13 and SFAS No. 29 to draw this conclusion.

Bradley Real Estate is one registrant that reported a change in accounting policy due to the staff's view of contingent rate. The company previously recognized percentage rental income each period based on reasonable estimates of tenant sales. The company believed that the achievement of a future specified sales target of a lessee might be considered as probable and reasonable estimable at some point earlier in the year. However, the company stated in its December 31, 1999 10-K that on May 22, 1998, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus under Issue No. 98-9, Accounting for Contingent Rent in Interim Financial Periods, that despite the fact that the achievement of a future specified sales target of a lessee may be considered as probable and reasonably estimable at some earlier point in the year, a lessor should defer recognition of contingent rental income until such specified targets are met. The pronouncement was effective May 23, 1998, and was reaffirmed by Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, issued by the Securities and Exchange Commission in December 1999. Contingent rentals earned amounted to approximately $3,310,000, $1,897,000, and $1,864,000 in 1999, 1998, and 1997, respectively. Certain leases also require lessees to pay all or a portion of real estate taxes and operating costs, amounting to $36,171,000, $31,615,000, and $25,253,000, in 1999, 1998, and 1997, respectively.

Income Statement Presentation

Gross versus net is one issue that received attention from the staff regarding Income Statement presentation. First, it is necessary to understand exactly what this issue involves. This topic relates to companies who distribute or resell products or services provided by others, bill the customer for the product themselves, and pay to the original provider everything except a commission or fee. The question is whether the company should recognize the full price of the product billed to the customer as revenue and expense the portion paid to the provider of the product or if the company should only recognize as revenue the commission or fee. The gross versus net issue first gained attention when the SEC asked the FASB's Emerging Issues Task Force (EITF) to address numerous accounting issues regarding Internet related businesses. The staff attempted to answer at least a part of the question by providing three items, which should be considered when making the decision. These are whether the seller is acting as a principal or as an agent/broker in the transaction, whether the seller takes title to the product, and whether the seller has the risks and rewards of ownership such as the risk of loss for bad debts or delivery of returns. The staff concluded if the company performs as an agent or broker without assuming the risks and rewards of ownership of the goods, sales should be reported on a net basis.

Ientertainment, in its December 31, 1999 10-K, revealed that it was changing the way it recognized advertising revenue based on the interpretation in SAB 101. The Company retroactively reclassified its 1999 quarterly reporting to present its advertising revenues net of sales and marketing expenses. The total amount reclassified for the three months ended March 31, 1999 was $53,000. Revenues and expenses were restated. Reported income did not change. Internet advertising revenue is generated through third party agency representation. The Company stated the recognition of revenue in this manner is consistent with the actual cash received. This reporting approach, although it does reduce the Company's reported revenues by the amount of the agency commission, has no impact on cash or earnings. For example, during 1999, the Company reported net advertising and contract revenue of $1,351,000, and recorded $824,000 of advertising agency commission expense. If the Company had recognized revenue on a gross basis that is prior to deduction for third party advertising commission, advertising and other revenue would have been $2,175,000. In those instances where the Company's own internal personnel sells advertising direct to the advertiser, there is no outside sales commission, and therefore, revenues are recognized on a gross basis which is consistent with the cash received.

The staff also discussed the **Sale of Leased or Licensed Departments** with regard to Income Statement presentation. This issue was addressed in SAB 1, which permitted retailers to include the sales of leased or licensed departments in the amount reported as "total revenues" because of industry practice. However, the staff believes that Technical Practice Aid section 5100.16 (amended in June 1995) requires department stores and other retailers that lease or license store space to account for rental income from leased departments in accordance with SFAS No. 13. Therefore, it would be inappropriate fro a department store or other retailer to include in its revenue the sales of the leased or licensed departments. Rather, the department store or other retailer should include the rental income as part of its gross revenue. The staff also added that it would not object to disclosure in the footnotes to the financial statements of the amount of the lessee's sales from leased departments.

Value City Department Stores decided to change its presentation based on this issue in the bulletin. Previously, the company reported "Total Revenues" including licensed department sales. In 2000, the company changed its method of reported licensed sales. It removed leased departments from "total revenues" and license fee revenue is only shown as a separate line item on the income statement.

As is evident, Staff Accounting Bulletin 101 affected firms across various industries. The companies discussed above were used as examples to reveal the accounting implications of the staff's interpretations. The effects ranged from timing of revenues, to inappropriate recognition, to income statement presentation. These companies are only a glimpse of the far-reaching effects of SAB 101. The following chapter will explore the overall effect of SAB 101 on public companies.

Chapter 3
Overall Effects of SAB 101 on Public Companies

As mentioned in Chapter 1, SAB 101 was one bulletin of three in response to the desire to curb earnings management. However, SAB 101 had an even more specific target. It hoped to focus in on revenue recognition and provide better guidance for business transactions that had not yet been specifically addressed by current literature. This chapter will focus on what industries SAB 101 affected and what type of impact or accounting treatment was used to report the changes. To obtain this information, the paper relies on a study performed by Bear Stearns. However, to verify the results reported in the study, the 10-Ks and 10-Qs of all companies who reported a change in their revenue recognition policies were reviewed to ensure the study reported accurate information.

The Bear Stearns Companies Inc. (NYSE: BSC) is the parent company of Bear, Stearns & Co. Inc., a leading worldwide investment banking and securities trading and brokerage firm. Bear Stearns serves corporations, institutions, and individuals worldwide. The firm's business includes corporate finance, mergers and acquisitions, equity and fixed-income sales and trading, private client services, derivatives, securities research, asset management, foreign exchange, and futures sales and trading. Through another wholly owned subsidiary, Bear, Stearns Securities Corp., the firm provides professional and correspondent clearing services including securities lending. Bear Stearns in its 77 years of existence has built its reputation as an aggressive and innovative investment banking and trading firm. In order to ensure disciplined and sustained growth, as well as to assist their clients, Bear Stearns has a research department who performs studies on different accounting issues. One such research project performed by the company was on Staff Accounting Bulletin 101. The company reviewed approximately 4,500 Form 10-Ks and 2,900 Form 10-Qs filed between December 1, 1999 and March 31, 2000. Approximately 800 companies mentioned "SAB 101" or "Staff Accounting Bulletin No. 101." Of the 800, 241 companies mentioned "something of consequence." ("Revenue Recognition: An Update" 1). These 241 companies were again reviewed to ensure the accuracy of the information presented in this study. Exhibit B includes the list of the companies, the details reported in the company's 10-K or 10-Q, and the financial impact of SAB 101. All companies were reviewed in replace of a sample of companies because it was anticipated that announcement dates of all companies would be needed to calculate the stock price effect. These dates were not provided in the Bear Stearn study. During their search, Bearn Stearn found 120 companies that reported a change or reported they are going to change their revenue recognition policies to be in compliance with SAB 101.

When first issued, according to Bear Stearns, it was believed by many that SAB 101 would have the most significant impact on internet companies ("Revenue Recognition: An Update" 6). This belief existed because of the nature of internet companies. Many internet companies, mostly start-up companies, are not producing a profit, and therefore, the market values the companies based on a revenue multiple. Therefore, it seemed these companies would have the most incentive to "gross-up" revenues. A letter written on October 18, 1999 from Lynn E. Turner, Chief Accountant of the SEC, to Mr. Timothy Lucas, Director of Research and Technical Activities of the Financial Accounting Standards Board, expressed the concern of the SEC regarding revenue recognition in internet companies and urged the FASB to address the issues. Some issues discussed in the letter were gross versus net, and various revenue recognition issues related to internet activities. Lynn Turner stated in the letter that,

> "As we discussed at the EITF meeting on September 23, the SEC staff has been developing a list of issues that have arisen in internet businesses. We have finished preparing that list, and it is attached to this letter. The list includes those issues that we believe warrant consideration by the EITF (or another standard-setting body). As discussed at the EITF meeting, we have also suggested priority levels for addressing each of the issues (priority levels 1-3). It would be helpful if the level 1 items could be dealt with first. However, we believe that all of the issues should eventually be addressed" (Turner 1).

It is clear that SEC is concerned about internet companies and their current accounting procedures. Thus, the expectation was that SAB 101 would affect mostly internet companies, not only due to the SEC's concern, but also because they involved some of the newest business transactions which would have not been addressed in previous literature. Although some internet companies have changed revenue recognition policies due to SAB 101, it has not been the industry most heavily impacted. According to a study performed by Bear Stearns, the technology sector, including the biotechnology industry and the computer industry, is the sector most impacted by SAB 101. Based on the 241 companies identified by Bear Stearns, Table 1 below displays the different industries affected, how many companies in each industry were affected, and the most common issue in SAB 101 affecting that industry.

Table 1

Industry	Number of Companies	Primary Issue
Biotechnology	33	Nonrefundable upfront fees
Financial Diversified	30	Contingent Rent
Computers	29	Upfront Fees
Health Care	28	Nonrefundable upfront fees
Various Other	24	
Unspecified	19	
Electronics	17	Customer acceptance, installation
Retail	17	Layaway Sales
Services	16	Upfront Fees
Telecommunications	12	Nonrefundable upfront fees
Semiconductor Equipment	9	Customer acceptance, installation
Airlines	7	Sale of frequent flyer miles
Total	241	

As the above table indicates, the two issues, which have caused the most concern in SAB 101, are upfront fees and sales involving customer acceptance/ installation. Both of these issues exhibit the difference between what the SEC views as the completion of an earnings process and what management views as the completion of an earnings process. According to Bear Stearns, management seems to take the view that the earnings process is complete when substantially all of the effort and cost that must be expended on its part as seller has occurred. In other words, when the risks of ownership have been transferred. On the other hand, the SEC views the earnings process as complete when the buyer has received all or almost all of the benefits of ownership. This takes it more from the viewpoint of the buyer. More details of these two issues and exactly what the SEC requires can be found in Chapter 2.

After understanding which industries have been affected, it would be interesting to see exactly what type of affect has resulted. Exhibit B is sorted by the impact of SAB 101 on various public companies. The impact refers to what type of change was reported. (Details of the financial impact can be seen in Exhibit B). The types were not limited to retroactive or cumulative discussed earlier in Chapter 1 because of the variety of disclosures reported by companies. The most common of all reported effects was "Evaluating Impact." This supports the need for the SEC to delay the implementation of SAB 101. It is not an easy process for a company to change their revenue recognition flow nor is it easy to calculate what revenues would be if it were different. Of the 130 companies who reported they were still evaluating the impact, ten stated it might result in a significant effect, while 27 stated it should result in an immaterial effect. This additional information increased investor awareness as to what expect from SAB 101 but did not provide specific information.

The second most popular response was to report a cumulative adjustment. Recall that the staff permitted firms to report a cumulative adjustment in accordance with APB No. 20. Many companies seem to be taking advantage of reporting the change as a cumulative adjustment on the income statement instead of reporting a retroactive adjustment and restating prior periods. The big bath philosophy enticed many companies to using this method as well as the aversion to restating previously issued financial statements. It can be expected that the majority of the companies who reported that they were evaluating impact, will most likely chose this reporting method at the time of adoption.

The next most abundant response was companies who reported a change in revenue recognition policies to comply with SAB 101 and reported the effect was immaterial. This category includes nineteen companies who specifically stated it did not have a material affect, one company who reported it would comply with it on a prospective basis, six companies who reported a shift of revenue recognition from early in the period till later, as well as one company which simply changed the presentation of the income statement. This category includes a mixed array of disclosures, however, each results in the same conclusion, which is, net income remains unchanged.

Another common response, with 21 companies, was that the company's current revenue recognition policies comply with SAB 101. This disclosure, although not required, served to ease investors and the market that the company had reviewed the regulation and had determined it is in accordance with it. This disclosure can be viewed in a way the most positive disclosure because it shows these companies had interpreted the guidelines correctly and were in accordance with the SEC.

The most unpopular response among registrants to SAB 101 was for 16 companies who had to retroactively adopt the regulation and restate prior periods. For these firms, it is clear that they were not following previous guidance with regards to revenue. In fact, one company, Raytheon, is currently being investigated by the SEC claiming that the restatement the company made was not really a SAB 101 issue, but a general revenue recognition error. The firms in this category should be most concerned about the threat made by the SEC in SAB 101 to take enforcement action where a registrant in prior financial statements has violated the antifraud or disclosure provisions of the securities laws with respect to revenue recognition.

Lastly, there was one firm who reported that SAB 101 does not apply due to the fact that industry guidelines take precedence. This disclosure was not included in the immaterial group because it could have very well been material if the company decided it did apply to their situation. The results of all of these disclosures are summarized in Exhibit C. It is important to note again the timing of these results. The companies disclosures reported in this report are as of March 31, 2000. Most companies who stated they are evaluating the impact of the regulation in their annual 1999 10-K have adopted SAB 101 in their annual 2000 10-K.

As is evident, various responses resulted from SAB 101 that were for the most part unexpected. Many companies who thought they had been recognizing revenue within the guidelines discovered they were incorrectly interpreting existing authoritative literature causing them to change historical revenue recognition policies. The next chapter will discuss what purpose regulation such as SAB 101 serves, and will develop different hypothesis with regards to SAB 101's affect on the market.

Chapter 4
Regulation and Expected Market Reactions to SAB 101

Before beginning the calculations of the impact of SAB 101 on the market, it is necessary to first explore why a reaction would even be expected. In other words, what is the purpose of regulation and financial reporting. To understand this theoretical concept, the thesis explores William Beaver's intuition and analysis in his book, *Financial Reporting: An Accounting Revolution.* After it is clear what purpose regulation such as SAB 101 has, it will be possible to predict what type of market impact, if any would be expected from it.

William Beaver, in his book discusses the purpose and function of accounting, financial reporting, and regulation. He also investigates the relationship of financial reporting and regulation to security prices with and without market efficiency. Although Beaver addresses all of these issues, and draws significant conclusions, it is important to note that most of them are still open and subject to debate. Beaver points out that "perfection in unattainable," and therefore, the hope would be to find the best, most efficient method of communicating information with the least costs (Beaver 187). However, due to a variety of stakeholders involved, there may not be a consensus on what is the "best" method. Therefore, Beaver advocates the decision comes down to a cost benefit analysis. Throughout the novel, Beaver examines what information stakeholders, based in different environments, require and the effects of that information on the market.

Information, such as revenue or sales, can be provided from two different perspectives, an accounting or an economic perspective. Beaver defines accounting as, "the measurement and communication of economic information relevant to decision-makers", and economic income as "the change in present value of future cash flows after project adjustments for stock issues or dividends"(Beaver xiii). In looking for what ideal properties net income should have, such as more is preferred to less, economic income would result. However, in general, Beaver explains there has been a shift in financial accounting from economic income to an informational perspective (Beaver 5). This shift occurred late in 1960 and was partially due to the fact that economic income is not well defined when there is an imperfect market. Another reason for the shift is there are so many stakeholders involved; each with different interests, there appears to be an inability to reach a consensus on the best method of reporting. The stakeholders include investors, information intermediaries, regulators, managers, and auditors. Investors demand for information differs with respect to their portfolio strategy, i.e. buy v. hold. Information intermediaries demand for information differs with respect to the job they are being paid to perform, i.e. search for non-public information, perform a prospective analysis, or a retrospective analysis. Regulators, managers, and auditors are the stakeholders responsible for supplying the information, each with different opinions on which information should be supplied based on their varying incentives. Regardless of their position, all stakeholders have a "vital" interest in the information and the effect of that information on the firm's security price (Beaver 143). Due to the variety of needs regarding financial information, it is clear there is no "best" method. The decision will involve tradeoffs based on the economic consequences that would result from the information.

Due to the nature of the economic consequences of financial reporting and their differing effects on the constituencies, Beaver views the information presented through financial reporting as a social choice (Beaver 53). Some of the economic consequences he refers to are the distribution of wealth, the allocation of resources, allocation of risk, and aggregate risk incurred (Beaver 16). These consequences make the financial reporting environment complex and diverse, and make the choice of what information to report a choice between the welfare and interests of the various stakeholders. Beaver states that "no amount of accounting expertise alone is going to resolve such an issue, because such an issue also involves value judgments" (Beaver 53). This reinforces the point made in the introduction in that there is no "best" financial reporting method.

All stakeholders require different information based on whether earnings are reported in a certain v. uncertain environment. In a certain environment, Beaver states perfect markets exists when there are no transaction costs, no abnormal returns, and prices for any claim are publicly available1 (Beaver 58). In other words, there are "no bargains" (Beaver 64). While an environment in which all prices are known is not realistic, it helps to understand an uncertain environment. Under certainty, permanent earnings are equal to economic earnings. Beaver defines permanent earnings as, "constant dividend, which if received in a perpetuity would have the same value as that of the dividend stream that will actually be paid out" (Beaver 72). It is permanent earnings, which reflect the dividend paying ability of the firm, which is the ultimate knowledge to be obtained from information. In this setting, Beaver claims earnings is a "valuation concept" and "can only be found after the firm's value and equity have been determined" (Beaver 85). Because permanent earnings are equal to economic earnings there is not need for accrual accounting.

In an uncertain environment where markets are incomplete, the information required is of a different form. In this setting, "earnings are used as an input into the valuation process rather than as an output derived as a by-product of the valuation process" (Beaver 100). Beaver explains that this helps to explain the shift in emphasis by the FASB to an informational perspective and away from an economic income perspective (Beaver 100). The FASB's hope is to provide information that will indicate the firm's ability to pay future dividends. To do this in an uncertain environment, it becomes necessary to base financial information on accrual accounting. Accrual accounting is believed by the FASB as a better predictor of future earnings then cash flows and can be best justified in a firm experiencing growth. This, however, Beaver states is a debatable issue.

Regulation, by the FASB and SEC currently controls what information is required to be disclosed as well as how it is to be disclosed. The securities Acts of 1933 and 1934 gave the SEC the power to ensure "full and fair" disclosure by corporations issuing securities on an interstate basis. Beaver views the central issue regarding regulation as to "whether or not there is some flaw in the private sector such as market failure that leads to the conclusion that government regulation more desirable solution" (Beaver 187). It is believed by some that if left unregulated market forces would lead to asymmetrical or uneven possession of information among investors. Externalities serve as an example of market failure and Beaver explains two free rider problems that could possibly result without regulation. The first externality exists among firms who benefit from other firms disclosing information without contributing the costs of disclosing that information. The second externality exists among investors who benefit from firms' disclosure, also without contributing to its cost. These externalities can induce inefficiencies within the market.

Not only does the environment and regulation play a large role in what information is required, but market efficiency also affects it. Beaver describes the securities market as efficient "if and only if prices act as if everyone universally observes the signal from the information system" (Beaver 142). In other words, prices fully reflect the information system. Beaver referred to Fama (1970) to segregate market efficiency into three possible categories. These are weak form, semi-strong form, and strong form. In the weak form, the market fully reflects past information on security prices. In the semi-strong form, the market fully reflects all publicly available information. In the strong form the market reflects both what is included in the weak and semi-strong as well as inside information. If all information is fully reflected in prices, investors will simply be price takers and the need for information will serve little purpose. If information is not fully reflected, investors will engage in active portfolio management hoping to earn abnormal returns on mispriced security, and their demand for information increases. Beaver asserts, that the FASB has not expressed a position on the efficiency of the market. The same is also true for the SEC. It would make sense if the FASB and the SEC advocated that the market is efficient in the semi-strong form, but not in the strong form. It is this case of market efficiency which would provide the "most favorable climate for disclosure regulation" (Beaver 178).

Once it has been decided what information needs to be provided, the next step would be to analyze the effect of that information on the market. Beaver, *in Financial Reporting: An Accounting Revolution*, draws attention to a few specific issues related to the relationship between the securities market and regulation. He states one rationale for disclosure is to provide information not already reflected in security prices. Beaver proposes two ways to test if disclosure achieves this purpose. The first of these is to examine the price effects of an announcement of the regulation (Beaver 198). This examines the anticipated effects of the regulation. For example, Beaver, Christe, and Griffin examine the price effects of the announcement proposing ASR No. 190 and the announcement of its passage (1980). Secondly, examine whether or not prices behave as if such disclosure led to a systematic revision in beliefs. For example, Dukes investigates the price effects associated with disclosures under FAS No. 8, which deal with foreign currency translation (1978). The second method is the one to be performed on SAB 101. However, Beaver is sure to point out if no price effect arises after the regulation announcement or after the disclosure, it does not necessarily mean that the regulation did not serve any purpose (Beaver 199). For example, the information in the disclosure could have already been reflected in the security prices by other means, and disclosure simply is a cheaper way of revealing that information. In the studies Beaver reviewed results varied as to whether price effects existed due to the regulation. In an article about significant legislation, Davide Snyder stated, "According to the Commission, new rules (regulations) are intended to increase communications with security holders and the marketplace; place cash and stock tender offers on a more equal regulatory footing and update, clarify and harmonize disclosure requirements" (2000).

Based on the information presented by Beaver and other professionals it is possible to draw expectations about what the market reactions would be to SAB 101. First, it is important to notice if SAB 101 created new or different information to be released to the market place, or simply proposes a more efficient way of releasing information. Although SAB 101 did not provide new authoritative literature for firms to follow, it did cause firms to release different information about revenues then the firms had been previously. In other words, what once was considered the proper time to recognize revenue has now been changed to a different time. Therefore, it is believed that new information due to SAB 101 has entered the market place. It is also important to consider whether this new information is relevant to the market. Because the new information deals with revenues, and revenues are part of earnings, it seems appropriate to make the assumption that such information would be relevant to the market. These two expectations lead to hypothesis 1, which is SAB 101 will impact security prices of public firms. To make this hypothesis and experiment more specific this hypothesis has been tailored to only encompass the Airline Industry.

Hypothesis 1: SAB 101 will impact security prices of public airline firms.

The next logical question would be whether the impact on security prices would be positive or negative. Any companies who change their revenue recognition policies to comply with SAB 101 have sent a red flag stating they were previously incorrectly recognizing revenue. Therefore, hypothesis 2 states that SAB 101 will adversely affect security prices of public airlines firms.

Hypothesis 2: SAB 101 will adversely affect security prices of public airlines firms. Both of these hypotheses will be tested in the following chapter. From earlier chapters, it is evident SAB 101 definitely has affected firms and it would be expected that a corresponding adjustment would result in the firm's security prices. Before testing these hypotheses, the chapter will look more closely at the airline industry as well as the airlines selected in the sample to test.

Chapter 5
Testing of Market Reactions in Airline Industry to SAB 101

Based on the analysis discussed by Beaver, it is evident that there is a possible connection between regulation and stock prices. Therefore, this chapter examines whether investor's perception of firms have changed around the time of announcement related to SAB 101. The decision was made to focus on one specific industry versus the entire population of public companies. The study will perform an event time study versus a calendar time study. An event time study reviews a specific airline's stock prices at the time that particular airline announced information regarding SAB 101. In other words, it will test how the market reacted to each event. A calendar study would take the first time SAB 101 was announced by any company or analyst and look at every airline's market reactions on that calendar day.

I choose the airline industry to perform the stock analysis study to ensure homogeneity in the issues in SAB 101 affecting the airlines. Edgarscan from PricewaterhouseCoopers Global Technology Centre was used to select the airlines. The top fifteen airlines based on highest operating revenue in 1999 were selected (Exhibit D[11]). Operating Revenue was used as an alternative to net income because SAB 101 establishes guidelines regarding revenue. The airlines' net income is reported in Exhibit

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[11] The data in these exhibits was extracted by "EdgarScan" from the PricewaterhouseCoopers Global Technology Centre. A disclaimer is present at http://edgarscan.pwcglobal.com/EdgarScan/edgarscan_disclaimer.html

E[1]. In both exhibits only fourteen airlines are displayed; Comair Holdings Inc, the fifteenth airline, was eliminated from the study because it merged with Delta before December of 1999, prior to when SAB 101 was issued. It should also be noted that United Air Lines Inc is a subsidiary of UAL Corp, the same is true for American Airlines Inc and AMR Corp. Therefore, only UAL and AMR are included in the study.

Staff Accounting Bulletin 101 affected all fourteen of these airlines in the same manner. The issue that each airline had to reconsider after the issuance of SAB 101 was their frequent flyer programs and how the company was accounting for the revenues of such programs. While SAB 101 does not discuss frequent flyer programs specifically, it became clear to these airlines that the revenue being recorded from these programs was not in accordance with the requirements revealed in SAB 101 (These requirements were discussed in Chapter 2.) Before looking at stock prices, it is necessary to first review to what extent to SAB 101 affect these airlines. Therefore, the following section reviews each of the fourteen airlines' frequent flyer programs, and the effect SAB 101 had on the airline.

Airlines – Frequent Flyer Programs and Revenue Recognition
UAL Corp

UAL's frequent flyer program is known as "United's Mileage Plus." The program has grown due to the success of partnerships such as First USA Mileage Plus Visa and Master Card, MCI WorldCom and E*TRADE. Revenue from third-party mileage sales reached $107 million during the first quarter of 2000, compared to $91 million in 1999.

United announced in its annual 1999 10-K that it intends to change the method it uses to account for the sale of mileage to participating partners in its Mileage Plus program. UAL previously recorded mileage plus revenue when customers earned it. Under the new accounting method, a portion of the revenue from the sale of mileage will be deferred and recognized when transportation is provided. In accordance with the provisions of SAB 101, United reported it will recognize a charge for the cumulative effect of a change in accounting principle in the first quarter of 2000, to reflect application of the accounting method to prior years. The company did record a change in accounting principle. UAL, in its March 31, 2000 10-Q, has recorded a charge of $209 million, net of tax, for the cumulative effect of a change in accounting principle to reflect the application of the accounting method to prior years. This change resulted in a reduction to revenues of approximately $5 million in the first quarter 2000 and would have impacted 1999 first quarter revenues by approximately $7 million. As of March 31, 2000, the deferred revenue balance relating to Mileage Plus was $376 million.

AMR Corp

American established the AAdvantage frequent flyer program (AAdvantage) to develop passenger loyalty by offering awards to travelers for their continued patronage. AAdvantage members earn mileage credits for flights on American, American Eagle and certain other participating airlines, or by utilizing services of other program participants, including hotels, car rental companies and bank credit card issuers. American sells mileage credits and related services to the other companies participating in the program. American reserves the right to change the AAdvantage program rules, regulations, travel awards and special offers at any time without notice. American may initiate changes impacting, for example, participant affiliations, rules for earning mileage credit, mileage levels and awards, blackout dates and limited seating for travel awards, and the features of special offers. American reserves the right to end the AAdvantage program with six months' notice.

AMR differs from UAL in that it is currently in compliance with SAB 101. In AMR Corp's annual 12-31-99 10-K, the company stated that American accounts for its frequent flyer obligation on an accrual basis using the incremental cost method. American's frequent flyer liability is accrued each time a member accumulates sufficient mileage in his or her account to claim the lowest level of free travel award (25,000 miles) and such award is expected to be used for free travel. American includes fuel, food, and reservations/ticketing costs, but not a contribution to overhead or profit, in the calculation of incremental cost. The cost for fuel is estimated based on total fuel consumption tracked by various categories of markets, with an amount allocated to each passenger. Food costs are tracked by market category, with an amount allocated to each passenger. Reservation/ticketing costs are based on the total number of passengers, including those traveling on free awards, divided into American's total expense for these costs. American defers the portion of revenues received from companies participating in the AAdvantage program related to the sale of mileage credits and recognizes such revenues over a period approximating the period during which the mileage credits are used. Because AMR records revenue when mileage credits are used, it is in accordance with SAB 101 and therefore, did not require a change in accounting principal.

Delta Air Lines Inc

Delta sells mileage credits in the SkyMiles(R) program to participating partners such as credit card companies, hotels, and car rental agencies. In both of Delta's 12-31-1999 10-Q and 3-31-1999 10-Q, the company stated it was reviewing SAB 101 to determine the impact, if any on the company's consolidated financial statements. In

Delta's 6-30-2000 Annual 10-Q the company reported, in accordance with SAB 101, it changed it's method of accounting for the sale of these mileage credits. Under the new accounting method, a portion of the revenue from the sale of mileage credits is deferred until earned, and is recognized when the credits are redeemed for travel. The majority of the revenue from the sale of mileage credits is recorded in passenger revenue, and the remaining portion is recorded as an offset to expense. Previously, the revenue from the sale of mileage credits was recorded in other revenue in the period in which the credits were sold. All prior year amounts have been reclassified to conform with the current year presentation. The company retroactively adopted SAB 101 as of July 1, 1999, which resulted in a cumulative effect charge of $66 million after tax ($.51 basic and $.48 diluted EPS). The adoption of SAB 101 also decreased fiscal 2000 operating income by $34 million ($21 million after tax, or $.16 basic and $.15 diluted EPS).

Continental Airlines Inc

Continental believes each major airline has established a frequent flyer program designed to encourage repeat travel on its system. Continental's OnePass program currently allows passengers to earn mileage credits by flying Continental and certain other carriers including Northwest, America West, Alaska Air, Alitalia, Air France, COPA and Gulfstream. The Company also sells mileage credits to credit card companies, phone companies, hotels, car rental agencies and others participating in the OnePass program. Due to the structure of the program and the low level of redemptions as a percentage of total travel, Continental believes that displacement of revenue passengers by passengers using flight awards has historically been minimal. The number of awards used on Continental represented slightly less than 7% of Continental's total revenue passenger miles in each of the years 1999 and 1998.

In the company's 12-31-1999 10-K, Continental reported that as a result of the recently issued Staff Accounting Bulletin No. 101 - "Revenue Recognition in Financial Statements," the Company changed.the method it uses to account for the sale of these mileage credits. This change, which totaled $27 million, net of tax, was applied retroactively to January 1, 1999. Under the new accounting method, revenue from the sale of mileage credits is deferred and recognized when transportation is provided. Previously, the resulting revenue, net of the incremental cost of providing future air travel, was recorded in the period in which the credits were sold. This change reduced net income for the year ended December 31, 1999 by $21 million ($32 million pre-tax). The Company believes the new method is preferable as it results in a better matching of revenues with the period in which services are provided.

US Airways Group Inc

US Airways provides travel awards earned by participants in its "Dividend Miles" frequent traveler program when the requisite mileage award levels are achieved. US Airways also sells mileage credits to participating partners in Dividend Miles and recognizes the resulting revenues as Other operating revenues when the credits are sold. In 1998, US Airways and American Airlines, Inc. (American) announced a marketing relationship that gives customers combined access to both companies' frequent traveler programs. Under the program, members who belong to US Airways' Dividend Miles and American's AAdvantage are able to claim awards for airline travel on both airlines and to combine miles when claiming travel awards on either airline. Each airline compensates the other when relieved of an obligation to provide a travel award. US Airways records its obligation to American as a component of other operating expenses.

US Airways, in its 12-31-1999 10-K stated that the Company will implement SAB 101 effective January 1, 2000. As a result, the Company will modify its revenue recognition policy for the sale of mileage credits, or Dividend Miles, sold to partners. The portion of proceeds from sales of Dividend Miles that represents the Company's obligation to provide future travel to Dividend Miles members will be deferred and recognized as a component of Passenger transportation revenues when the service is rendered. The remaining portion of the sales proceeds will continue to be recognized immediately as a component of Other operating revenues. The Company stated it would recognize a cumulative effect of adopting SAB 101 as a change in accounting principle as of January 1, 2000. The cumulative effect of accounting change, net of applicable income taxes, is estimated to be $103 million. The charge represents the difference between the Retained earnings (deficit) balance as of December 31, 1999, presented in the accompanying Consolidated Balance Sheets, and what that balance would have been had the Company applied SAB 101 for all previous periods. The company did in fact report in its 3-31-2000 10-Q that it was changing its method of accounting for the sale of mileage credits. The Company believes the new method results in a better matching of revenue with the period in which travel services are provided.

Southwest Airlines Co

Southwest Airlines Co, frequent flyer program, known as Rapid Rewards, enables participants to earn flight segment credits. The Company accrues the estimated incremental cost of providing free travel awards earned under its Rapid Rewards frequent flyer program. The Company also sells flight segment credits and related services to companies participating in its Rapid Rewards frequent flyer program.

Southwest reported in its 12-31-1999 10-K that the Company will adopt SAB 101 effective January 1, 2000, and change its method of accounting used to recognize revenue for the sale of flight segment credits to companies participating in its Rapid Rewards frequent flyer program. Prior to the issuance of SAB 101, the Company recorded revenue to Other Revenue when flight segment credits were sold, which is a commonly used method of accounting within the airline industry. However, in accordance with SAB 101, revenue received from the sale of flight segment credits and associated with future travel will be deferred and recognized as the ultimate free travel awards are flown. Also as part of this change, this revenue will be classified as Passenger Revenue in the Company's Consolidated Statement of Income. As of January 1, 2000, the cumulative effect of this accounting change will reduce first quarter 2000 net income by approximately $22.1 million (net of provision for income taxes of approximately $14.0 million). Adopting this new method of accounting for 1999, 1998, and 1997, would have produced the following pro forma results: Net income would have been reduced by $3.9 million, $5.0 million, and $5.5 million, respectively (net of provision for income taxes and profitsharing of approximately $2.5 million, $3.1 million, and $3.5 million, respectively). Earnings per share, basic and diluted, would have been reduced by $.01 per share for each year, except 1999 basic earnings per share would not change. However, while pro forma amounts will be presented in future financial statements, these years will not be restated. Southwest did adopt SAB 101 in its 3-31-2000. The impact of adopting SAB 101 on first quarter 2000 was to reduce income before cumulative effect of change in accounting principle by $822,000. The Company also reclassified for comparison purposes, the revenue reported in prior periods related to the sale of flight segment credits from "Other revenue" to "Passenger revenue."

Trans World Airlines Inc

TWA initiated its frequent flyer program in May 1981. Frequent flier programs like TWA's Aviators have been adopted by most major air carriers and are considered the number one marketing tool for developing brand loyalty among travelers and accumulating demographic data pertaining to business fliers. TWA accounts for its frequent flyer program under the incremental cost method, whereby travel awards are valued at the incremental cost of carrying one additional passenger. These costs are accrued when Aviators participants accumulate sufficient miles to be entitled to claim award certificates. Incremental costs include passenger food, beverages and supplies, fuel and liability insurance expenses incurred on a per passenger basis. No profit or overhead margin is included in the accrual for incremental costs. TWA does not record a liability for airline, hotel or car rental award certificates that are to be honored by other parties because there is no cost to TWA for these awards.

Trans World Airlines states in its 12-31-1999 10-K that it believes SAB 101 is applicable to the recognition of revenue related to the sale of Aviator miles to business partners. Previously, the total purchase price of Aviator miles was recognized as revenue during the month of sale, net of the estimated incremental cost of providing future air travel. Based on guidance in the SAB, the revenue will be deferred and recognized over the period in which transportation will be provided. The Company will adopt this policy in the first quarter of fiscal 2000 and expects the cumulative effect will result in a charge to earnings of approximately $13.0 million. The company did record the adoption in its 3-31-2000 10-Q. The Company believes the new method results in better matching of revenue with the period in which travel services are provided. The cumulative effect of this change resulted in a charge to earnings of $12.8 million in the first quarter of 2000. Prior period financial statements have not been restated. If the newly adopted policy had been applied in the prior year, the impact on net income would have been immaterial.

Alaska Air Group Inc

Alaska Air Group believes all major airlines have developed frequent flyer programs as a way of increasing passenger loyalty. Alaska's Mileage Plan allows members to earn mileage by flying on Alaska, Horizon and other participating airlines, and by using the services of non-airline partners, which include a credit card partner, telephone companies, hotels and car rental agencies. Alaska is paid by non-airline partners for the miles it credits to member accounts. With advance notice, Alaska has the ability to change the Mileage Plan terms, conditions, partners, mileage credits and award levels.

In Alaska's 3-31-2000 10-Q, the company stated that four major U.S. airlines have adopted SAB 101 in the first quarter of 2000 and changed their method of accounting for the sale of frequent flyer miles. Alaska believes that SAB 101 also applies to its sale of frequent flyer miles. As a result, Alaska expects to implement SAB 101 during the second quarter of 2000 and change its method of revenue recognition for the sale of mileage credits. The portion of the proceeds from sales of miles that represents Alaska's obligation to provide future travel on Alaska will be deferred and recognized as a component of passenger revenue when the service is rendered. The portion of the proceeds from sales of miles that represents Alaska's obligation to provide future travel on other airline partners will be recorded as a liability to those partners. The remaining portion of the sales proceeds will continue to be recognized immediately as part of other operating revenues. During the second quarter of 2000, Alaska changed its method of accounting for the sale of miles in its Mileage Plan. Under the new method, a majority of the sales proceeds is deferred, and recognized when the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards issued on Alaska and as other revenue-net for awards issued on other airlines. In connection with the change, Alaska recognized a $56.9 million, net of income taxes of $35.6 million, cumulative effect charge effective January 1, 2000. Accordingly, results for the first quarter 2000 have been restated.

Airtran Holdings Inc

Airtran did not discuss SAB 101 or its frequent flyer program in its 12-31-99 10-K or its first and second quarter 10-Qs. Airtran did state in its footnotes in all of these documents that passenger and cargo revenue is recognized when transportation is provided. Transportation purchased but not yet used is included in air traffic liability. The Company will continue to offer assigned seating, a frequent flier program and business class seating. Based on this limited information, the assumption has been made that Airtran is currently in compliance with SAB 101 regarding revenue recognition of its frequent flyer program.

Hawaiian Airlines

Under the Company's HawaiianMiles frequent flyer program, the Company sells mileage credits to participating partners such as hotels, car rental agencies and credit card companies. Aloha (Hawaiian Airlines) also participates in United's frequent flyer program and also has a code sharing agreement with United. Aloha principally utilizes 19 Boeing 737 aircraft with a schedule that averages approximately, depending on seasonality, 180 daily flights, which service the same basic Interisland routes as the

Company. The Company has approximately, depending on seasonality, 160 Interisland flights per day. Also, refer to the discussion below regarding the Company's major marketing affiliations, including code-sharing arrangements. The Company believes that Interisland competition is primarily based on fare levels, flight frequency, on-time performance and reliability, name recognition, affiliations, frequent flyer programs, customer service and aircraft type. The Company has also entered into agreements with contractors, including American, Northwest, Continental and certain other airlines, to provide certain facilities and services required for its operations, including aircraft leasing and maintenance, code sharing, reservations, computer services, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling and personnel training.

In its 12-31-1999 10-K, Hawaiian stated that during 1999, as promulgated by the Securities and Exchange Commissions' Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," the Company changed the method it uses to account for the sale of the mileage credits. This change, applied retroactively to January 1, 1999, totaled approximately $772,000, net of income tax benefit of approximately $515,000 and is reflected as a cumulative effect of change in accounting principle in the accompanying statements of operations. Under the new accounting method, revenue from the sale of mileage credits is deferred and recognized when transportation is provided. Previously, the resulting revenue was recorded in the period in which the credits were sold. The Company believes the new method is preferable as it results in a better matching of revenues with the period in which services are provided.

Midwest Express Holdings Inc

The Company operates a frequent flyer program (the "Frequent Flyer Program") under which mileage credits are earned by flying on Midwest Express, Skyway or other participating airlines (including Swissair, Virgin Atlantic and Northwest) and by using the services of participating hotels (including Hilton, Hyatt, Loews, Radisson, Swissotel and Wyndham), car rental firms (including Avis, Hertz and National), MCI telecommunications, Elan MasterCard(R) and other program partners. Members can redeem Frequent Flyer Program miles for travel on Midwest Express or Skyway (20,000 miles for a free roundtrip ticket or 15,000 miles for a companion ticket), or other participating airlines. In addition to free travel, miles can be redeemed at participating hotels, car rental firms and other program partners. The program is designed to enhance customer loyalty and thereby retain and increase the business of frequent travelers by offering incentives for their continued patronage. The Frequent Flyer Plus Plan offers additional benefits and rewards to members flying at least 20,000 miles or 25 one-way trips in a calendar year.

In Midwest's 12-31-1999 10-K the Company simply states that it expects SAB 101 will be applicable to revenue recognition related to the sale of frequent flyer miles to frequent flyer partners. The Company also states that it is currently in the process of evaluating the accounting and disclosure effects of SAB 101 and is anticipating the adoption of any changes in policies to comply in the first quarter 2000. The Company expects the cumulative effect of this change will result in a material charge to earnings in first quarter 2000. In Midwest's 3-31-2000 10-Q, the company did adopt SAB 101. Prior to the issuance of SAB 101, the Company recognized all revenue from frequent flyer miles sold to partners, net of the incremental cost of providing future air travel, when the mileage was sold, which was consistent with most major airlines. Beginning January 1, 2000, as a result of adopting SAB 101, the Company has changed its method used to account for the sale of frequent flyer mileage credits to participating partners such as credit card companies, hotels and car rental agencies. Under the new accounting method, a portion of the revenue from the sale of frequent flyer mileage credits is deferred and recognized when transportation is provided to the passenger. The cumulative effect of this change is an unfavorable adjustment of ($7.8) million, net of tax. The Company believes the new method appropriately matches revenues in the period in which services are provided.

Mesa Air Group

Mesa Air Group passengers traveling on flights operated pursuant to code share agreements receive mileage credits in the respective frequent flyer programs of America West and US Airways, and credits in those programs can be used on flights operated by the Company. Approximately 95% of the Company's airline revenues for the year ended September 30, 2000, were derived from operations associated with code share agreements. The Company's subsidiaries have one code share agreement with America West and five separate code share agreements with US Airways.

Mesa Air Group reported in its 9-30-2000 10-K that the company adopted SAB 101 and it did not have a material impact on the Company's financial condition, results of operations or liquidity. The assumption is made that the company did have to change its revenue recognition polices, but that the change was immaterial.

Skywest Inc

Skywest does not have its own frequent flyer program, but participates in Delta's. The company states in its 3-31-00 10-K that it does not expect SAB 101 to have a material impact on the Company's consolidated financial statements, but it will not be adopted until the first fiscal quarter of 2001.

Northwest Airlines Corp

Northwest operates within an international global alliance whose other primary members are KLM, Continental and Alitalia. Through these and other alliance partners, such as Air China, Malaysia Airlines and Japan Air System, Northwest is able to provide seamless global service and more choices to its customers through code-sharing, frequent flyer program reciprocity. This coordination increases the destinations, connections and frequencies offered by Northwest, and thus provides an opportunity to increase traffic on flight segments connecting with alliance partners.

Northwest Airlines reports in its 12-31-1999 10-K that the estimated incremental cost of providing travel awards earned under Northwest's WorldPerks frequent flyer program is accrued. The Company sells mileage credits to participating companies in its frequent flyer program. A portion of such revenue is deferred and amortized as transportation is provided. Therefore, the company's revenue recognition polices are in compliance with SAB 101.

Summary of Airlines

Of the fourteen airlines discussed, three of them reported that the company was in compliance with SAB 101 and therefore had no impact, two companies reported that although a change in revenue recognition policies was required, the impact was immaterial, eight companies reported a cumulative effect on the income statement (three of these companies reporting the cumulative effect retroactively as of January 1, 1999), and one company restated its first quarter earnings in 2000 to record the cumulative effect of the change in accounting principal. Therefore, the method of adoption regarding this issue is relatively consistent being a cumulative change in accounting principal. The differences simply arise as to whether the adjustment was calculated as of January 1, 1999 or January 1, 2000. The amount of the adjustments ranges from immaterial to $209 million.

Market Experiment

Recall from Chapter 5, that it has been predicted in hypothesis 1 that the market would be significantly impacted by SAB 101, and the second stated that the impact would be negative. In order to test if the market reacted to SAB 101 in the Airline Industry, it is first necessary to identify the event dates. Event dates refer to the first announcement by a firm regarding SAB 101 and its implications. These dates represent the first time information is provided to the market about a company enabling the market to react. Table 2 lists the event dates for each of the airlines. As can be seen, some airlines have two event dates. This results when companies at one date, for example, state they are evaluating SAB 101 and expect the impact to be material and that at another date state the actual impact of SAB 101.

TABLE 2

AIRLINE	EVENT DATE 1	EVENT DATE 2
UAL CORP /DE/	3/14/2000	3/27/2000
AMR CORP	3/27/2000	
DELTA AIR LINES INC	2/14/2000	7/5/2000
NORTHWEST AIRLINES CORP	3/28/2000	
CONTINENTAL AIRLINES INC	1/12/2000	
US AIRWAYS GROUP INC	3/15/2000	4/19/2000
SOUTHWEST AIRLINES CO	3/28/2000	4/18/2000
TRANS WORLD AIRLINES INC	2/23/2000	4/19/2000
ALASKA AIR GROUP INC	2/25/2000	7/14/2000
AIRTRAN HOLDINGS INC	3/30/2000	
HAWAIIAN AIRLINES INC/HI	3/30/2000	
MIDWEST EXPRESS	4/20/2000	
MESA AIR GROUP INC	12/29/2000	
SKYWEST INC	6/27/2000	

The event dates listed above were identified in a two-step process. First, the SEC filings for each airlines filed after December 1, 1999 until the most recent filing were reviewed on Edgarscan. If the filing discussed SAB 101, the date at which the filing was actually filed with the SEC was identified as a possible event date. For example, in UAL's 1999 10-K, the company mentioned that it plans on changing its revenue recognition policies to comply with SAB 101. This document was filed on 3/14/00. Therefore, this is the event date, not 12-31-1999, because this is when the information was first available to the market. There is another way in which such information could have been revealed to the market before the filing and this is why step two is required. Before each filing, the companies create a press release revealing any significant information about the quarterly or annual results, which appears in newspapers. Therefore, after event dates were identified based on the SEC filings, a search was performed to locate the press releases for these filings. This search was performed on Lexis-Nexis Academic Universe, in the category News-Wires, which includes all wire service reports. To make this process of identifying event dates clearer, it is necessary to go back to the example. It was identified that 3-14-00 could be a possible event date for UAL's first announcement about SAB 101. The press release was found for this annual filing. The press release was printed on 1/19/00, which is before the SEC filing of 3/14/00. However, this particular press release did not mention SAB 101. This is most likely due to the fact that the company had not yet estimated its impact. Therefore, the first event date for UAL is 3/14/00. The same procedure was performed for the next filing, 10-Q, which did contain the adoption of SAB 101 and its impact. However, for this information, the press release date of 3/27/00 was used in replacement of the SEC date 5/5/00, because the press release revealed the same information the SEC filing did but at an earlier date. This was performed for each of the airlines and the event dates were identified as above.

Now that the event dates have been established, it is possible to obtain the stock prices for each of the airlines to analyze. To obtain the stock prices, Wharton Research Data Services (WRDS), universal data access system, is used. WRDS is a state-of-the-art web-based data management service which provides delivery of data from multiple sources onto Unix workstations and desktop PCs. The CUSIP for each of the airlines was identified based on the airlines ticker symbols. With these CUSIP numbers, it is possible to look up the stock price of the airline on any day for any particular length of time. It was decided for this study that the stock prices for five days before the event date and five days after the event date and the event date should be used (in total 11 days). Also, on each of these 11 days WRDS can provide the market return that day, which will be useful when calculating the impact of the regulation. After collecting the stock prices, it is necessary to calculate the daily stock return for each airline using a simple return formula.

After accumulating the market returns and stock returns for each of the 11 days surrounding the event dates, it is possible to perform statistical testing regarding the market impact of SAB 101. For purposes of this study, Excess return is defined as Firm Return less Market Return. In other words, the stock return is adjusted by the overall markets return to account for any events that might have occurred that day which affected the market but did not have anything to do with the regulation under study. The mean adjusted return is then calculated by including all excess returns for each event date from

–5 to +5 but excluding –1,0 and 1. This is referred to as the portfolio mean of excess returns. Next it is necessary to calculate the standard deviation of the portfolio of excess returns (once again excluding days –1,0 and 1). The standard deviation calculation was calculated using an (n-1) adjustment for the small sample size. After finding the standard deviation, it is possible to compute the t-statistics for each day –1,0 and 1 by taking the mean of excess returns for each day –1, 0, and 1, and dividing it by the standard deviation of the portfolio of excess returns. Any t-statistic greater than 1.96 in absolute value is statistically significant. (All formulas used can be found in Exhibit F.)

Results

The process discussed above was performed in four different approaches:

1) Using most informational specific Event Dates
2) Using only Event Date 1
3) Using only Event Date 2
4) Taking the absolute value of excess returns of the most informational Event Date

The first approach, using the most informational event dates, means for those firms in which two event dates have been identified, selecting only one event date that reveals the most specific information about SAB 101 and therefore, would result in the greatest market impact. For example, Delta Airlines revealed on its first event date that the company was currently reviewing the guidance to determine the impact. On the second event date, Delta stated that the company did adopt SAB 101, restated first quarter earnings to include a $66 million after-tax charge. Obviously, event date 2 is much more informative and therefore was used in this sample. Table 3 below summarizes the results of this sample. As the results show below, when looking at the fourteen event dates of the airlines which provided the most specific information about SAB 101, there was a statistical significant effect. On the actual event date, day 0, the t-statistic was 6.35.

Recall, to be consider significant it must be equal to or greater than 1.96. Given that this is the most informational set of dates, it is expected to have a high significance. It is important to note that the impact is positive. Reasons for this result will be discussed after reviewing all four approaches.

TABLE 3
Computed Using Most Informational/Specific Event Dates

Mean of Excess Retunrs (excluding -1,01)	**-0.000448306**
Standard Deviation of Portfolio (excluding -1,0,1)	**0.00293299**

			EXCESS RETURNS	
AIRLINE	**EVENT DATE**	**-1**	**0**	**1**
UAL CORP /DE/	3/27/00	-0.002107993	-0.030442592	0.080606
AMR CORP	3/27/00	-0.009966539	-0.010608326	0.055283
DELTA AIR LINES INC	7/5/00	0.005899601	0.0551185	0.011053
NORTHWEST AIRLINES CORP	3/28/00	-0.009526493	0.055185697	0.096981
CONTINENTAL AIRLINES INC	1/12/00	0.03852252	0.004191888	-0.080119
US AIRWAYS GROUP INC	3/15/00	-0.007097056	0.136996965	-0.059691
SOUTHWEST AIRLINES CO	3/28/00	-0.01549694	0.054515774	-0.005266
TRANS WORLD AIRLINES INC	2/23/00	-0.000657207	-0.01212865	-0.048324
ALASKA AIR GROUP INC	7/14/00	-0.014535117	-0.043066463	0.028401
AIRTRAN HOLDINGS INC	3/30/00	0.061875982	0.01778551	-0.019072
HAWAIIAN AIRLINES INC/HI	3/30/00	0.093357463	0.01778551	-0.037671
MIDWEST EXPRESS	4/20/00	0.022049624	-0.040632937	-0.03401
MESA AIR GROUP INC	12/29/00	-0.015055799	0.020896525	0.012527
SKYWEST INC	6/27/00	0.007965507	0.035299828	0.040319
Adjusted Mean Return		0.011087682	**0.018635516**	**0.0029297**
Standard Deviation of Portfolio		0.00293299	0.00293299	0.002933
T-Statistic		**3.780334527**	**6.353761172**	**0.998888**
Cumulative T-Statistic (-1, 0, 1)			**6.427631162**	

The second approach is to consider only Event Date 1. The assumption behind this calculation is that the market will react to the first announcement regardless of how much information is provided, and then will adjust its reaction on the second announcement if it over or under estimated the effect of SAB 101. The results are shown below in Table 4. Again, Day 0 shows significant results with the t-statistic at 6.652.

TABLE 4
Computed Using Only Event Date 1

Mean of Excess Retunrs (excluding -1,01)	**-0.001740503**
Standard Deviation of Portfolio (excluding -1,0,1)	**0.002853364**

		EXCESS RETURNS		
AIRLINE	**EVENT DATE**	**-1**	**0**	**1**
UAL CORP /DE/	3/14/00	0.020711233	0.007669026	0.108574
AMR CORP	3/27/00	-0.009966539	-0.010608326	0.055283
DELTA AIR LINES INC	2/14/00	-0.044233451	-0.007944918	-0.024669
NORTHWEST AIRLINES CORP	3/28/00	-0.009526493	0.055185697	0.096981
CONTINENTAL AIRLINES INC	1/12/00	0.03852252	0.004191888	-0.080119
US AIRWAYS GROUP INC	3/15/00	-0.007097056	0.136996965	-0.059691
SOUTHWEST AIRLINES CO	3/28/00	-0.01549694	0.054515774	-0.005266
TRANS WORLD AIRLINES INC	2/23/00	-0.000657207	-0.01212865	-0.048324
ALASKA AIR GROUP INC	2/25/00	0.00506441	-0.013277859	0.008675
AIRTRAN HOLDINGS INC	3/30/00	0.061875982	0.01778551	-0.019072
HAWAIIAN AIRLINES INC/HI	3/30/00	0.093357463	0.01778551	-0.037671
MIDWEST EXPRESS	4/20/00	0.022049624	-0.040632937	-0.03401
MESA AIR GROUP INC	12/29/00	-0.015055799	0.020896525	0.012527
SKYWEST INC	6/27/00	0.007965507	0.035299828	0.040319
Adjusted Mean Return		0.010536661	0.018981002	0.0009668
Standard Deviation of Portfolio		0.002853364	0.002853364	0.002853
T-Statistic		**3.692714955**	**6.652148264**	**0.33882**
Cumulative T-Statistic (-1, 0, 1)			**6.168227149**	

The third method was to look at only the second event dates. The sample size decreased in this calculation because only six of the fourteen airlines had announcements on another date. The results for this sample displayed below in table 5 show that second announcement dates did not have substantial information which the market valued. The t-statistic on Day 0 was only .175. Most of the information regarding SAB 101 was already reflected in the stock prices on the first announcement date.

TABLE 5
Computed Using Only Event Date 2

Mean of Excess Retunrs (excluding -1,01)	**-0.001302672**
Standard Deviation of Portfolio (excluding -1,0,1)	**0.092793789**

			EXCESS RETURNS	
AIRLINE	**EVENT DATE**	**-1**	**0**	**1**
UAL CORP /DE/	3/27/00	-0.002107993	-0.030442592	0.080606
DELTA AIR LINES INC	7/5/00	0.005899601	0.0551185	0.011053
US AIRWAYS GROUP INC	4/19/00	0.010530159	0.088414412	0.028779
SOUTHWEST AIRLINES CO	4/18/00	-0.110545501	-0.002240078	0.07713
TRANS WORLD AIRLINES INC	4/19/00	-0.03818779	0.007729815	0.1327
ALASKA AIR GROUP INC	7/14/00	-0.014535117	-0.043066463	0.028401
Adjusted Mean Return		-0.082067617	0.011928908	0.0970479
Standard Deviation of Portfolio		**0.092793789**	**0.092793789**	**0.092794**
T-Statistic		**-0.34589524**	**0.175363423**	**0.832931**
Cumulative T-Statistic (-1, 0, 1)			**5.444805919**	

The last approach is to once again use the most specific informational event dates, but in this approach to take the absolute value of the excess returns. This would indicate whether there was an effect regardless of whether it was a negative or a positive reaction. The results of this calculation would not support the hypothesis 2 that an adverse market reaction is expected in regards to SAB 101, but would, if significant, support hypothesis 1 that SAB 101 will result in a market impact. The results shown below in table 5 indicate that there was a significant impact and thus hypothesis 1 is supported.

Table 6

Computed Using Absolute Value of Excess Retunrs using Informational Event Dates

Mean of Excess Retunrs (excluding -1,01)	**-0.000448306**
Standard Deviation of Portfolio (excluding -1,0,1)	**0.006814674**

		EXCESS RETURNS		
AIRLINE	**EVENT DATE**	**-1**	**0**	**1**
UAL CORP /DE/	3/27/00	0.002107993	0.030442592	0.080606
AMR CORP	3/27/00	0.009966539	0.010608326	0.055283
DELTA AIR LINES INC	7/5/00	0.005899601	0.0551185	0.011053
NORTHWEST AIRLINES CORP	3/28/00	0.009526493	0.055185697	0.096981
CONTINENTAL AIRLINES INC	1/12/00	0.03852252	0.004191888	0.080119
US AIRWAYS GROUP INC	3/15/00	0.007097056	0.136996965	0.059691
SOUTHWEST AIRLINES CO	3/28/00	0.01549694	0.054515774	0.005266
TRANS WORLD AIRLINES INC	2/23/00	0.000657207	0.01212865	0.048324
ALASKA AIR GROUP INC	7/14/00	0.014535117	0.043066463	0.028401
AIRTRAN HOLDINGS INC	3/30/00	0.061875982	0.01778551	0.019072
HAWAIIAN AIRLINES INC/HI	3/30/00	0.093357463	0.01778551	0.037671
MIDWEST EXPRESS	4/20/00	0.022049624	0.040632937	0.03401
MESA AIR GROUP INC	12/29/00	0.015055799	0.020896525	0.012527
SKYWEST INC	6/27/00	0.007965507	0.035299828	0.040319
Adjusted Mean Return		0.021722417	**0.038189655**	**0.0435233**
Standard Deviation of Portfolio		0.006814674	0.006814674	0.006815
T-Statistic		**3.18759464**	**5.604032819**	**6.386699**
Cumulative T-Statistic (-1, 0, 1)			**8.763211102**	

Analysis of Results and Limitations of the Experiment

After reviewing the tables and calculations above, it is evident that SAB 101, according to this study did result in a market reaction, however, it did not result in an adverse effect. If the calculation had been performed on individual firms, some would result in significantly negative impacts while others significantly positive. When each of the firms were given equal weight, the average outcome was positive. This may have resulted due to information transfers within the industry. In other words, when one firm announces it may affect other firms. Because they are all competitors, knowing that one firm is doing worse than previously thought may improve the standing of others. However, the information transfer may also be positive so that if one firm is negatively affected, it may suggest that other firms will potentially be negatively affected too. It is also possible for a positive impact to have resulted due to the limitations of the study.

Unfortunately, limitations exist when attempting to work with data of stock prices. This study includes many of the traditional limitations found in any stock analysis as well as some that could be avoided if the study was performed with less time and resource constraints. First, various firms had specific days in which its excess returns were abnormally high or low. These outliers usually average out over an extended period of time. However, the data collected surrounding the event dates was only five days before and five days after. Many important events could have occurred in these ten days skewing the standard deviation and mean. In order to smooth these affects it is necessary to collect data for thirty days before and thirty days after the event date. Secondly, because the event dates were either press releases or SEC filings, other information about the company was included in those documents, which the market most likely reacted to. For example, it was very common, if the press release was used as the event date, for the press release to include an announcement of earnings for the period. If the earnings were different from expected earnings, the market would react to the difference, thus skewing the statistics found above. Lastly, during the time period studied other events occurred which were not accounted for. Each airline had its unique events. For example, Delta on July 5, 2000 changed its fiscal year-end, UAL merged with US Airways , and Midwest Express announced on April 30 that there was a threat of a strike by Midwest Express pilots which caused a loss in bookings, a contract singing bonus, and an increase in pilot wages. All these occurrences most likely affected stock prices and therefore also affected the results of this study. If these limitations were accounted for, the study could result in the same conclusion or two other results could have been discovered. First, the market could have shown no impact. This would occur if the market already took into account that airlines were recognizing mileage credits when they were sold, and that this was inappropriate behavior. The other result could be that the market reacted adversely to SAB 101, showing investors displeasure with the firms.

Due to these limitations, the conclusions drawn from the study are weakened and therefore, it makes it difficult to draw any generalizations about SAB 101 and the airline industry. It is possible for other industries to be affected more dramatically or to a lesser extent. While it is difficult to assess the market impact on other firms, the conclusions of this study are clear and are supported in three of the four approaches taken to analyze the stock prices. SAB 101 has significantly impacted the security prices of the airline industry.

Chapter 6
Recent Views and Reactions to SAB 101

According to the study, SAB 101 did impact security prices of the airline industry. However, it is not just the airline industry that has been affected. The fact is SAB 101 has had significant impact in the financial reporting world and continues to cause concern and confusion among registrants. SAB 101's purpose was to aid in the effort to decrease earnings management. "One of the most common earnings management tools is reporting revenue before a sales transaction has occurred or before the seller has performed under the terms of a sales contract"("SEC Fact Sheet"). As the staff noted, "a March 1999 report entitled *Fraudulent Financial Reporting: 1987-1997 An Analysis of US Public Companies*, sponsored by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, indicated that over half of financial reporting frauds in the study involved overstating revenue" (Synder). Whether SAB 101 had achieved its purpose is yet to be seen. What is for certain, is that SAB 101 has ignited an in depth investigation by firms and their auditors on current revenue recognition practices.

Many auditing firms are providing guides to their clients to aid in the understanding of the new bulletin. For example, PricewaterhouseCoopers, one of the big five public accounting firms, had created an Implementation Guide to help their clients and staff understand SAB 101 and how it might be applicable to their business. PricewaterhouseCoopers has recommended that companies:

- "Carefully study and evaluate SAB 101 and the accompanying FAQ
- Closely review the details of all sales contracts and arrangements as well as how business is conducted.

- Critically evaluate all aspects of revenue recognition policies and procedures.
- Be alert for future developments and interpretations of SAB 101." ("Impact of SAB 101")

PwC has also assembled a team of revenue specialists to assist existing and potential clients in evaluating and adopting SAB 101. A reason for the extensive resources available on SAB 101 is that it is far-reaching and can be confusing since it does not represent new guidance.

Pat McConnell, senior managing director of Bear Stearns, says, "SAB 101 is the crown jewel of the SEC's earnings management initiative, and, as such, it has unleashed a flood of protest from companies"(Osterland). According to Andred Osterland, SAB 101 represents an "ongoing war on earnings management, and the SEC may have outdone itself with new rules on revenue recognition." Based on comments such as these it appears of the three bulletins, SAB 101 has proved to be the most controversial. "Finance executives and accounting experts alike say that SAB 101 will make the earlier bulletins pale in comparison" (Osterland). One reason for the additional controversy over SAB 101 is that deals with the most fundamental of corporate transactions, and is therefore expected to affect a far greater number of companies than SABs 99 and 100.

As the previous chapters have discussed, some industries have been affected more than others. For example, the semiconductor manufacturing industry and biotechnology industry have been heavily impacted while Delta Air Lines Inc. claims the adoption has been relatively uncomplicated. Recall, Delta took a pretax charge of $108 million in the second quarter as a cumulative adjustment for prior quarters, and it will be able to recognize that revenue again in succeeding periods. "Other than a little more bookkeeping work and some adjustments to Delta's automated frequent-flier program, the change has been painless", says Bastian, a Delta executive (Osterland). In fact, Wall Street may view the new policy as a positive, which is supported by the results of this study. "The analyst community never liked the volatility that cash recognition caused," says Bastian. This makes for a steadier accounting flow" (Osterland). Despite these mixed views about SAB 101, Andrew Osterland claims, "many opponents believe the SEC has overstepped its regulatory bounds. While the Commission has carefully pitched SAB 101 as simple guidance on the application of other revenue recognition rules already issued by FASB and the AICPA, corporate executives say it amounts to much more".

For companies that have been consistently misrepresenting their revenue growth, however, SAB 101 could have disastrous consequences in the stock market. Unlike earnings restatements stemming from previously booked one-time charges, those related to improper revenue recognition have often resulted in spectacular collapses in stock prices, competing shareholder lawsuits, and permanent damage to a company's ongoing business. For example, the software industry, where a number of high-flying companies crashed to earth after new rules drafted by the American Institute of Certified Public Accountants (AICPA) forced them to change their accounting practices. Indeed, SOP 97-2, which the SEC used as a model for SAB 101, has provided a grim picture of just how damaging restatements due to improper revenue recognition can be for companies. MicroStrategy Inc., a Vienna, Virginia, manufacturer of business software, provides the most dramatic example. Shares in the company plunged 62 percent on the day the company announced it would restate revenues for the prior three years to comply with SOP 97-2. Revenues for 1999 were lowered from $205.3 million to $151.3 million, and profits of 15 cents per share became a loss of 44 cents per share. The SEC is currently investigating MicroStrategy's accounting practices. It appears, among other things, MicroStrategy was booking most of its fee revenue from large long-term contracts up front, rather than recognizing it over the life of the contracts.

In the past year, corporations have come to realize that the SEC's "guidance" on the recognition of revenue has forced some major changes to their accounting practices. And along with the changes, there have been one-time charges in many cases, restatements of prior financial results. There have been and could continue to be SEC inquiries, volatile reactions in the stock market, and, of course, shareholder lawsuits. Moreover, if the whole point of Levitt's earnings management initiative is to reduce the opportunities for corporations to manipulate the numbers, it is possible SAB 101 may do the exact opposite. Executives could include or exclude sales in a period by either expediting or delaying the acceptance of its customers. Whether SAB 101 has increased or decreased earnings management is yet to be seen. It is clear, however, that SAB 101 has changed the revenue recognition process of numerous firms and has resulted in far-reaching consequences.

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Exhibit B

Company	Impact of SAB 101	Details
General Growth Properties	Adoption resulted in a shift of revenue recogntion from early in period to later.	The company believes that there is no material cumulative effect on the company's financial position as of the date of adoption of this revised accounting and that the only
Hospitality Properties Trust	Adoption resulted in a shift of revenue recogntion from early in period to later.	The company adopted SAB 101 beginning Jan 1 2000, without restatement of prior periods. If SAB 101 were applicable for the three months ended March 31,1999, net
Host Marriott	Adoption resulted in a shift of revenue recogntion from early in period to later.	Wire &10-K - SAB 101 will have no impact of full-year 1999 revenues, or net income. Bear Stearns -339 million of contingent rent previously recognized as revenue during the thirty-six weeks ended Sept 10, 1999 has been deferred and recognized in subsequent periods of fiscal year 1999.
JP Realty	Adoption resulted in a shift of revenue recogntion from early in period to later.	10-K The cumluative effect of adopting the new guideline will not be material to the first quarter of 2000. 10-Q-As a result of the adoption, percentage and overage rents revenue and total revenues decreased $578 during the three months ended March 31, 1999 which will be recognized in the fourth quarter.
Price Development	Adoption resulted in a shift of revenue recogntion from early in period to later.	10-K Cumulative effect is estimated to be material. 10-Q As a result of SAB 101, overage rents revenue and total revenues decreased 578 during the three months ended March 31, 1999, which will be recognized fourth quarter.
Triangle Pharmaceuticals	Adoption resulted in a shift of revenue recogntion from early in period to later.	The adoption of SAB 101, during the three months ending Dec 31, 1999, resulted in all non-contingent research and development reimbursement uner the company's strategic alliance to be amortized as collarborative revenue over the anticipated research and development arrangement period.
Nesco	Applied change retroactively, and if necessary restated prior quarter/years statements.	The 1998 statement of income has been retroactively restated from that previously reported to report the change in contract revenues and costs for pay-for-performance contracts.
Anika Therapeutics	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	Recorded the cumulative effect of the change in accountinig principle of $3,625,000 as a charge in the first quarter 1999. Payments will be recognized as revenue ratably over the 10 year term of the distribution agreement.

Continental Airlines	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	Changed method to account for the sale of mileage credits. Changed totaled $27 million (net of tax) and was applied retroactively to Jan 1, 1999. Net income for year ended Dec 31, 1999 was reduced by $21 million.
Decode Genetics	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company has adopted SAB 101 and has restated prior years in accordance with the going public exemption under APB No. 20.
First American Financial	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	In 1999, the company reported a charge of 55.6 million, net of taxes and minority interests, as a cumulative change in accounting principle, reduced net inocme by 10.9 million, or .16 per diluted share and restated its quarterly information for the three months ended March 31, 1999.
Goody's Family Clothing	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	During the fourth quarter of 1999, the company retroactively restated its statements of operations. These changes had no impact on the company's earnings for 1998 and 1997, but did impact the company's earnings for the first thee quarters of 1999.
Hawaiian Airlines	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	Changed method to account for the sale of mileage credits. Changed totaled $772,000 and was applied retroactively to Jan 1, 1999. Net loss for year ended Dec 31, 1999 was increased by $1.0 million (pretax).
Ientertainment Network	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	10-K The company recognizes revenue generated through third party agency representation on a net basis, in accordance with SAB 101. 10-Q The company retroactively reclassified its 1999 quarterly reporting to present its advertising revenues net of these sales and marketing expenses. The total amount reclassified for the three months ended March 31, 1999 was 53,000,
Innkeepers USA Trust	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	10-K SAB 101 may impact the companies interim revenue. 10-Q and Wire The company restated the first quarter of 1999 in the statements of income and recorded results of the 2000 first quarter in accordance with the new pronoucement.

Intimate Brands	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company reported a change in accounting principle and retroactively restated its previously issued financial statements as of Jan 30, 1999 and Jan 31, 1998, and for each of the three fiscal years in the period ended Jan 30, 1999. The change reduced reported net earnings for each of the fiscal years 1997 through 1999 by .02-.02 per share per year.
K Mart	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company has recorded a one-time, non-cash after-tax earnings reduction of .01 per share, in the fourth quarter of 1999 to reflect the cumulative effect of the accounting change. (Wire simply states numbers adjusted for SAB 101)
Limited	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company will retroactively restate prior years financial statements, resulting in a reduction in reported earnings per share for each of the fiscal years 1997 through 1999 by .03-.04 per year. (Bear)
Premier Parks	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company elected to restate its quarterly results in its adoption of SAB 101. In restating the quarters ending, March 31, 1999 net loss was increased by 10,586 (.13 per share), June 30, 1999, net income reduced by 12, 190 (.16 per share), Sept 30, 1999 net income increased by 14,801(.19 per share), and Dec 31, 1999, net loss decreased by 7,975 (.11 per share).
Raytheon	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	Wire - Company restated its financial results consistent with SAB 101 resulting in a negative effect of .11 per share on fourth quarter earnings. 10Q-Following a review of
RFS Hotel Investors	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	10-K SAB 101 will not impact the company's revenue recognition ono an annual basis. 10-QThe company is accounting for SAB 101 as a change in accounting principle and consequently has restated its 1999 statement of operations and cash flows to be in conformity with SAB 101. The effect of the change on the three months ended March 31, 1999 statement of operations was to decrease total revenue by 12.6 million (.45 per share)

Sears Roebuck	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company changed the recongition of revenue received from licensed business partners. This change reduced revenues and expenses by equal amounts and therefore does not impact operating income. Prior year financial statements have been restated to reflect the reclassification under SAB 101.
Service Merchandise	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	A change in accounting principle was adopted during the quarter ended Jan 2, 2000. The cumulative effect of this change for prior periods to fiscal 1999 is an increase in net loss of 6.6 million, .07 per share.
Taubman Centers	Applied change retroactively, and if necessary restated prior quarter/years statemetns.	The company restated the results of the first three quarters of 1999. The effect of the restatement was to reduce net income by .3 million, 1.2 million, and 1.2 million for the first, second and third quartèr respectively. Fourth quarter income was then increased by 2.7 million.
Cinemark U.S.	Applied SAB 101 and changed revenue recognition policy.	10-K To apply with SAB 101, the company has reclassified (gains) losses of (4.9) million (11.0) mill (.2) Mill (2.3) mill and 2.4 mill in 1995, 1996, 1997, 1998, and 1999 respecitively. 10-Q The company has reclassified the gain on sale of assets of 66,906 from other income and expense to be included as a component of operating income in the first quarter of 1999.
Divall Income Properties LP	Applied SAB 101 and changed revenue recognition policy.	Applied SAB 101 during 2000.
Merchantonline.com	Applied SAB 101 and changed revenue recognition policy.	The company has reclassified its 1999 quarterly information to comply with SAB 101.
Level 8 systems	Applied SAB 101. Did not have a material impact.	Applied the provisions of SAB 101 for year ended Dec 31, 1999 and it did not have a material impact on their financial condition or results of operations.
Proxicom	Applied SAB 101. Did not have a material impact.	Applied SAB 101. Did not have a material impact.
Axys Pharmaceuticals	Applied SAB 101. Does not have a material effect.	Applied SAB 101. Does not have a material effect.

Pegasus Systems	Apply on a prospective basis	The company will apply SAB 101 on a prospective basis for fiscal years beginning after Dec 31, 1999. Its application regarding one-time set-up fees currently has an immaterial impact.
Bradley Real Estate	Change in accounting principle, but not a material impact.	Previously the company recognized percentage rental income each period based on a reasonable estmate often ant sales. The company now realizes a lessor shohuld defer recongition of contingent rental income until such specified targets are met.
Burham Pacific Property Trust	Change in accounting principle, but not a material impact.	Revenues for the year ended Dec 31, 1999 would have been reduced by 236,000 if the company reversed the percentage rent for the tenants who had not exceeded their sales
Ebay	Change in accounting principle, but not a material impact.	Ebay adopted a prescribed method for placement fee revenue in the first quarter 2000.
Evolving Systems	Change in accounting principle, but not a material impact.	Applied the provisions of SAB 101 for year ended Dec 31, 1999 and it did not have a material impact on their financial condition or results of operations.
MGI Pharma	Change in accounting principle, but not a material impact.	The company believes SAB 101 will alter the revenue recognition stream for future strategic agreements; certain payments will be initially capitalized, then amortized over a period of time.
Mid-Atlantic Realty Trust	Change in accounting principle, but not a material impact.	The change of recognizing revenue did not have a material impact on the financial statements for 1999.
Opus 360	Change in accounting principle, but not a material impact.	The company's subsidiary changed its method for recognizing revenue, but the change had not effect on historical net income or loss.
Peritus Software Services	Change in accounting principle, but not a material impact.	The company implemented numerous to controls to ensure SAB 101 was followed ie. A control has been added too the revenue recording process to confirm software delivery prior to revenue.
Policy Management Systems	Change in accounting principle, but not a material impact.	The company idenitifed approximately 3.2 million of revenue previously recognized in 1999 requiring adjustment due to SAB 101. The company has treated these adjustments as a change in accounting principle.
Professional Detailing	Change in accounting principle, but not a material impact.	The amounts excluded from revenue and program expenses due to SAB 101 were identical, therefore net income did not change.

Scotts Company	Change in accounting principle, but not a material impact.	The company must defer the recognition of commission earned in interim periods until minimum earnings thresholds are achieved. There will be no impact on the commission earned on an annual basis.
VSI Enterprise	Change in accounting principle, but not a material impact.	Adoption in the current year would not have had a material impact on operations for 1999.
Value City Department Stores	Changed presentation of income statement.	The income statement presentation of sales of leased departments has been removed from the income statement and the related license
Buildnet	Current revenue recognition principles comply with SAB 101.	The company adopted SAB 101 for the year ended Dec 31, 1999. The adoption did not have a material impact.
Covad Communications	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Crown America Realty Trust	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Curis	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Drypers	Current revenue recognition principles comply with SAB 101.	Company enters into bill and hold sale transactions which meet the criteria of SAB 101.
Felcor Lodging	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
General Magic	Current revenue recognition principles comply with SAB 101.	Based on SAB 101 and current accounting literature, the company is using the contract method of accounting to recognize certain transactions. (See Bear Stearns)
Inflow	Current revenue recognition principles comply with SAB 101.	The company adopted SAB 101 for the year ended Dec 31, 1999. The adoption did not have a material impact.
Inland Real Estate	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Interland	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Isis Pharmaceuticals	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Lasalle Hotel Properties	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.

Lynx Therapeutics	Current revenue recognition principles comply with SAB 101.	Adoption had no effect on results of operations.
National Golf Properties	Current revenue recognition principles comply with SAB 101.	SAB 101 reaffirms Issue No. 98-9 issued by the ETIF in 1998. The company accounted for the change in principle in 1998 based on No. 98-9
New Era of Networks	Current revenue recognition principles comply with SAB 101.	In accordance with SAB 101, the net reseller margin is recongized as revenue when the licensed software has been delivered, custo has accepted, and all significant obligations have been satified.
Real Media	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Salix Pharmaceuticals	Current revenue recognition principles comply with SAB 101.	Current revenue recognition principles comply with SAB 101.
Sangamo Biosciences	Current revenue recognition principles comply with SAB 101.	Uncertain as to how SAB 101 relates to biotechnology companies.
Sizeler Property Investors	Current revenue recognition principles comply with SAB 101.	SAB 101 reaffirms Issue No. 98-9 issued by the ETIF in 1998. The company accounted for the change in principle in 1998 based on No. 98-9
Urban Shopping Centers	Current revenue recognition principles comply with SAB 101.	SAB 101 reaffirms Issue No. 98-9 issued by the ETIF in 1998. The company accounted for the change in principle in 1998 based on No. 98-9
US Restaurant Properties	Current revenue recognition principles comply with SAB 101.	SAB 101 reaffirms Issue No. 98-9 issued by the ETIF in 1998. The company accounted for the change in principle in 1998 based on No. 98-9
Aetrium	Evaluating Impact	If any change it will be reported as a cumulative effect of a change in accounting principle.
Alza Corp	Evaluating Impact	The company believes it is possible under SAB 101 certain fees would be required to be deferred and recognized as revenue over future periods rather than immediately on a one-time basis.
AT&T Corp	Evaluating Impact	Evaluating Impact
Bell Atlantic	Evaluating Impact	Evaluating Impact

Bellsouth	Evaluating Impact	Evaluating Impact
Bioreliance	Evaluating Impact	The initial adoption of this guidance is not anticipated to have a material impact on the company's results of operations. However, the guidance may impact the way in which the company will account for future transactions.
Broadwing	Evaluating Impact	Evaluating Impact
BTU International	Evaluating Impact	The first quarter of 2000 financial results may be restated to the extent that SAB 101 is material and relevant. Prior year financial statements will not be restated.
Celgene	Evaluating Impact	Evaluating Impact
Cima Labs	Evaluating Impact	The company is currently expecting to implement SAB 101 in the second quarter of 2000 and, if material restate the first quarter at that time. The company estimates that the cumulative effect of the accounting change will be in the range of 1.0 to 2.0 million.
Collagenex Pharmaceuticals	Evaluating Impact	Evaluating Impact
Comstar Net	Evaluating Impact	Evaluating Impact
Euphonix	Evaluating Impact	If any change it will be reported as a cumulative effect no later than the company's second quarter of 2000.
First Washington Realty	Evaluating impact	Management has not assessed the impact of the adoption of SAB 101 due to variability of the terms under which contingent rents may occur.
Focal Inc	Evaluating Impact	SAB 101 had no impact on the company's 1999 results of operations, however, the company is still evaluating the potential future effects of applying SAB 101.

Franchise Financial Corp	Evaluating impact	The percentage of revenue reported in 1999 would not have differed materially had the company adopted SAB 101. The effect of SAB 101 on the March 31, 2000 financial statements would have been a shifting of the recognition of contingent revenues that otherwise would have beeen recognized in the first quarter of the yesr, to the latter part of the year.
GTE Corp	Evaluating Impact	Evaluating Impact
Guilford Pharmaceuticals	Evaluating Impact	Evaluating Impact
ICOS Corp	Evaluating Impact	Evaluating Impact
Insignia Financial Group	Evaluating Impact	The company believes SAB 101 will effect the timing of recognition of leasing transaction revenues. However, the company is currently unable to predict the impact, if any, on its normal seasonal revenue patterns.
Intrabiotics	Evaluating Impact	The impact of SAB 101 may delay the recognition of revenue related to upfront license fees in future periods. (Bear)
Ivax Corp	Evaluating Impact	10-K Adopting SAB 101 may require a change in accounting method for payments received for one licensing arrangement which may result in a cumulative charge of approximately 6.3 million, net of tax. The offsetting impact will result in deferred revenue which will be recognized in income through 2011. 10-Q SAB 101 says upfront payments should be deferred as revenue and recogn over the license period. The company's policy is to immediately recogn as revenue such payments and the company believes this is in accordance with GAAP.
Ligand Pharmaceuticals	Evaluating Impact	Due to the extent that SAB 101 will have an impact, the company will implement this new prouncement beginning with the second quarter of 2000.
Loewen Group	Evaluating Impact	Evaluating Impact
LTX Corp	Evaluating Impact	Evaluating Impact

Metrika Systems	Evaluating Impact	Evaluating Impact
Nortek	Evaluating Impact	The company is in the process of accumulating the information necessary to quantify the potential impact of this new guidance.
Onix Systems	Evaluating Impact	Evaluating Impact
Paperexchange.com	Evaluating Impact	If the company determines that any provision of the Membership Agreement with Internatioal Paper would negatively imapct the ability of the company to recognize the gross amount of revenue generated by International Paper's sales of products to PaperExchange, they will negotiate such changes to the Membership Agreement in order to comply with SAB 101.
Pharmacia	Evaluating Impact	Evaluating Impact
Pharmacopeia	Evaluating Impact	To the extent that SAB 101 would be applicable and have a material impact, the company would implement it beginning with the first quarter 2000.
Pharmanetics	Evaluating Impact	The company will implement the provisions of SAB 101 as necessary during 2000.
Prime Succession	Evaluating Impact	The industry is currently assessing the impact of the application of SAB 101 on revenue recognition policies.
QC Optics	Evaluating Impact	Evaluating Impact
Rhthms Netconnections	Evaluating Impact	Evaluating Impact
Scios	Evaluating Impact	Evaluating Impact
Sicor	Evaluating Impact	The evaluation has not been completed but the company will implement the prouncement beginging with the second quarter of 2000.
Simonds Industries	Evaluating Impact	Any effect will be reported as a cumulative effect of change in accounting principle as of Jan 2, 2000.

Spectra-Physics Lasers	Evaluating Impact	Evaluating Impact
Therm Electron	Evaluating Impact	The company has not completed its analysis to determine the effect that SAB 101 will have on its financial statements.
Thermedics Detection	Evaluating Impact	Evaluating Impact
Thermedics Detection	Evaluating Impact	The company has not completed its analysis to determine the effect that SAB 101 will have on its financial statements.
Thermo Bioanalysis	Evaluating Impact	Evaluating Impact
Thermo Fibertek	Evaluating Impact	The company has not completed its analysis to determine the effect that SAB 101 will have on its financial statements.
Thermo Instruement Systems	Evaluating Impact	Evaluating Impact
Thermo Optek	Evaluating Impact	Evaluating Impact
Thermo Sentron	Evaluating Impact	The company has not completed its analysis to determine the effect that SAB 101 will have on its financial statements.
Thermoquest	Evaluating Impact	Evaluating Impact

Time Warner	Evaluating Impact	It is expected that both annual revenues and costs in TWE filmed entertainment business will be reduced by an equal amount of approximately 1.5 to 2 billion as a result of these classification changes.
Titan Pharmaceuticals	Evaluating Impact	Evaluating Impact
Tweeter Home Entertainment Group	Evaluating Impact	The company does not expect to adopt SAB 101 until fiscal year 2001.Had SAB 101 been implemented for all periods presente, total revenue and cost of sales would have decreased by approximately 1.5 million for the three months ended March 31, 2000, .9 million for the three months ended March 31, 1999.
Unigene Laboratories	Evaluating Impact	Evaluating Impact
US West	Evaluating Impact	Evaluating Impact
Ventro	Evaluating Impact	If the company is required to change their accounting policies, they may in the future report substanitally lower revenues, and may be required to restate the results from earlier periods. This could cause the market price of our common stock to fall significantly.
Viropharma	Evaluating Impact	Evaluating Impact
Wal-Mart	Evaluating Impact	The company is currently evaluating the impact and will make any accounting method changes necessary during the first quarter of fiscal 2001.
Weingarten Realty Invest	Evaluating Impact	Implementation of this bullentin is expected to reduce revenue by .6 million in 2000.
Worldquest Networks	Evaluating Impact, not material.	The statement is not anticipated to have a material effect on results of operations, financial position, or cash flows.
Biotransplant	Evaluating impact.	Issue relates to payments of $18.5 million which will be required to record theses fees as revenue over the life of agreement.
Cadus Pharmaceutical	Evaluating impact.	Not yet determined whether applying guidelines will have a material impact on its financial position. (Bear Stearns)
Celanese	Evaluating Impact.	Evaluating Impact.

CNF Transportation	Evaluating impact.	Evaluating impact.
Connetics	Evaluating Impact.	Evaluating impact. If make change the cumulative effect will be recognized in year to date for the quarter ending June 30,2000.
Cor Therapeutics	Evaluating Impact.	Evaluating Impact.
Corixa	Evaluating Impact.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q If deem new accounting policy more appropriate, a cumulative effect will be made of app. $6.5 million as of Jan 1, 2000 and would be recorded as a charge in the six months ending June 30, 2000.
Coulter Pharmaceutical	Evaluating Impact.	Evaluating Impact.
Gene Logic	Evaluating Impact.	Will be adopted second quarter of fiscal 2000.
Genome Therapeutics	Evaluating Impact.	Will have an impact of future operating results related to payments of $17.0 million.
Gilead Sciences	Evaluating Impact.	If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000.
Hemispherx Biopharma	Evaluating Impact.	Stated change should have a material impact.
IDEC Pharmaceuticals	Evaluating Impact.	Evaluating Impact.
Imclone Systems	Evaluating Impact.	If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000.
Incyte Pharmaceuticals	Evaluating Impact.	If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000.
Magainin Pharmaceuticals	Evaluating Impact.	If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000.
Matritech	Evaluating Impact.	If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000. The company does not believe it will have a materail impact.
Midwest Express Holdings	Evaluating impact.	Expects the cumulative effect of change to revenue recognition related to the sale of frequent flyer miles will result in a material charge to earnings in the first quarter 2000.

Neo Rx	Evaluating Impact.	Uncertain as to how SAB 101 relates to biotechnology companies.
Netzee	Evaluating Impact.	The cumulative impact will be reported as a change in accounting principle.
Neuocrine Biosciences	Evaluating Impact.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q If deem new accounting policy more appropriate, a cumulative effect will be effective as of January 1, 2000. The company does not believe it will have a materail impact.
Ominipoint	Evaluating Impact.	The impact if any would be reflected in the post-merger financial statements.
Onemain.com	Evaluating Impact.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q The cumulative impact will be reported as a change in accounting principle in the second quarter of 2000. 10-Q stated it will not be material
OSI Pharmaceuticals	Evaluating Impact.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q If deem new accounting policy more appropriate, a cumulative effect will be effective as of October 1, 2000.
Pharmacyclics	Evaluating Impact.	Company will adopt 101 effective July 1, 2000 and does not expect it to have a material impact on its results of operations.
Regent Communications	Evaluating Impact.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q Company has begun to
Telecorp	Evaluating Impact.	Evaluating Impact.
Trans World Airlines	Evaluating impact.	Expects the cumulative effect of change to revenue recognition related to the sale of frequent flyer miles will result in a material charge to earnings in the first quarter 2000.
Vertex Pharmaceuticals	Evaluating Impact.	10-K & 10-Q Company will adopt 101 second quarter of 2000. Although presently determining effect, the company believes the amount could be material to net financial results. Wire - accountants are continuing to review the potential effect that implementation of SAB 101 will have on the financial results. The company believes it could be material.

Vical	Evaluating Impact.	The potential impact is expected to be materail to the financial statements.
Voicestream Wireless	Evaluating Impact.	Evaluating Impact.
Western Wireless	Evaluating Impact.	Evaluating Impact.
America Online	Evaluating Impact.	It is expected that both annual revenues and costs in TWE filmed entertainment business will be reduced by an equal amount of approximately 1.5 to 2 billion as a result of these classification changes.
Data Transmission Network	Evaluating Impact.	If a change is deemed necessary the company will report a cumulative effect and prior years will not be restated.
JNI Corp	Evaluating Impact.	The adoption is not expected to have a materail impact on the Company's financial position or results of operations, but may impact the timing and pattern of revenue recognition in the future.
Access Pharmaceuticals	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Alexander's	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Amtech Systems	Evaluating Impact. Do not expect a material effect.	Management believes the effects on liquidity, cash flow and financial position will not be material. The company is also considering potential changes to its standard contract for equipment sales that could mitigate the impact of SAB 101.
Carriage Services	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Ceridian	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Developers Diversified Realty	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Genus	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. The company is also considering potential changes to their standard contracts for equipment sales that could mitigate the potential impact of SAB 101.
Intercept Group	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.

Lifecell	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
MicroStrategy	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect. 10-K The company learned yesterday that non-compliance can be costly. -Wire
Neose Technologies	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Northland Cable Properties LP	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Novellus Systems	Evaluating Impact. Do not expect a material effect.	The company's reported results for six months ened July 1, 2000 will include a cumulative adjustment for all prior annual and interim periods including an adjustment for revenue reported in the first fiscal quarter of 2000. However, management believes SAB 101 will not effect the underlying sterngth of the business as measured by the dollar value of thier product shipments and cash flows.
Penwest Pharmaceuticals	Evaluating Impact. Do not expect a material effect.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q The effect of the change for non-refundable fees previously recognized is not expected to be material to the results of operations for the year.
Research Frontiers	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Sciquest.com	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Speedway Motorsports	Evaluating Impact. Do not expect a material effect.	The company expects to report a change in accounting principle but does not expect the change to materially impact the company's financial postion or future results of operations.
Strategic Diagnostics	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
UFP Technologies	Evaluating Impact. Do not expect a material effect.	The company does not expect SAB 101 to have a material impact. The company will adopt SAB 101 by recording the effect of any prior revenue transactions effec ted as a "cumulative effect of a change in accounting principle" as of Jan 3, 2000.

Valuestar	Evaluating Impact. Do not expect a material effect.	The company does not believe the interpetations outlined in SAB 101 will impact their accounting policies. However, they can not assure given the uncertainity of the topic if the SEC will not take a contrary postion.
Verio	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Vornado Realty Trust	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
Wendy's International	Evaluating Impact. Do not expect a material effect.	The company does not believe either standard (ETIF 98-9 or SAB 101) will have a material impact on its quarterly or annual fiancial statements. (Bear)
Wink Communications	Evaluating Impact. Do not expect a material effect.	Evaluating Impact. Do not expect a material effect.
JD Edwards & Co	Evaluating Impact. Does not expect it to be material.	The adoption of SAB 101 will not have a material impact on the company's results of operations, nor will it impact the company's current licensing or revenue recognition practices.
Terayon Communication Systems	Evaluating Impact. Does not expect it to be material.	Company currently can not determine effect. Management believes that SAB 101 will not effect the underlying stregnth or weakness of the company's business operations.
World Access	Evaluating Impact. Does not expect it to be material.	Company believes adoption would result in a substantial increase in the deferral of revenue for certain of their discontunued operations, but does not believe it will materially effect their continuing operations.
Alltel	Evaluating Impact. May result in significant effect	The company is currently evaluating the impact and believes it will result in a significant impact on net income in 2000.
CFM Technologies	Evaluating Impact. May result in significant effect	The effect of SAB 101 on the operating results in any future period cannot be fully determined; however, such a change could materially adversely effect the company's financial position and results of operations.
Damark International	Evaluating Impact. May result in significant effect	The company expects to record a noncash after-tax charge in first quarter 2000 currently estimated to be approximately 13 million. (Wire simply stated numbers adjusted for SAB 101 for third quarter results)

Electroglas	Evaluating Impact. May result in significant effect	The impact of SAB 101 may result in a adverse, material cumulative effect change in accounting adjustment that would be refulected in the Company's results of operations for the six months ended June 30 2000.
Memberworks	Evaluating Impact. May result in significant effect	10-Q The company plans on adopting SAB 101 effective July 1, 2000 and will record a one-time non cash charge of approximately 27 to 30 million. 10-K said 30 to 33 million. (Wire reports infor for first qt of fiscal 2001)
PerkinElmer	Evaluating Impact. May result in significant effect	In the process of quantifying the potential impact. The company believes it most likely will have significant impact concerning customer acceptance and installation terms.
Rose Hills	Evaluating Impact. May result in significant effect	The company believes it is likely that changes will be required which will impact the reporting techniques for revenue recognition by amounts material to the financial statements. However, the impact can not at this time be quantified.
Service Corp International	Evaluating Impact. May result in significant effect	The company is evaluating the impact and believes it may have a material impact on the Company's consolidated financial statements and on the manner in which the company records preneed sales activities.
Trikon Technologies	Evaluating Impact. May result in significant effect	The company believes when it adopts SAB 101 it will result in a cumulative adjustment to seconod quarter of 2000 and that the adjustment might have a material adverse effect on reported net income. However, the company also stated the implementation of SAB 101 will not effect the fundamental aspects of the company's operations.
Cohu	Evaluating Impact. May result in significant effect.	10-K During 1999, the Summit handlers had not met certain custo acceptance requirements. In accordance with SAB 101, revenue on these shipments will be recognized in 2000. 10-Q If any impact results, it will be recorded as a change in accounting principle. The company believes it may result in a significant cumulative effect that would be reflected for the six months ended June 30, 2000.

Peoplesoft	Industry specific guidelines take precedence.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q While SAB 101 does not supercede the software industry specific guidelines with which the company is in compliance with, SAB 101 may change revenue recogn requirments and the company would record a cumulative effect of change in accounting principle in the second quarter of 2000.
Abercrombie & Fitch	Reported Cumulative effect of accounting change, prior years will not be restated.	During, the fourth quarter of 1999, the company changed its accounting method for gift certificates, resulting in a noncash reduction of .03 per share to the company's diluted earnings per share.
Alexion Pharmaceuticals	Reported Cumulative effect of accounting change, prior years will not be restated.	Adoption will have material impact on its future operating results as it applies to the $10 million up-front non-refundable payment received from P&G which had been recognized fully in July 31, 1999. It must now be recorded over its future life.
Aquila Biopharm	Reported Cumulative effect of accounting change, prior years will not be restated.	Change its accounting for initial license fees. In the second quarter of 2000, a cumulative adjustment will be recorded retroactive to January 1, 2000 to create deferred revenue that will be recognized over future years.
Aviron	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q Determined that change in policy necessary for $15 million upfront license fees. Will make the change second quarter 2000 which will result in a charge to ops for the cumulative effect as of Jan 1, 2000.
Bell & Howell Company	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q The cumulative effect of adopting change in accounting principle of $5,628 was recognized as of the beginning of fiscal 2000.
Berlitz International	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K The company adopted SAB 101 effective Jan 1, 1999, and changed its method of recognizing income from deferred revenues on lessons paid for but not expected to be taken. 10-Q The cumulative effect of the accounting change resulted in a charge to 1999 earnings of 5,605.

Biomatrix	Reported Cumulative effect of accounting change, prior years will not be restated.	Company anticipates that a change in its polic will result in a cumulative effect adjustment after-tax charge estimated to range from 13 mill to 20 million, will be implemented second quarter 2000.
Bradlees	Reported Cumulative effect of accounting change, prior years will not be restated.	The company elected early adoption of SAB 101 in the fourth quarter of 1999, effective as of the beginning of 1999, and accordingly, recorded a charge of .6 million for the cumulative effect of a change in accounting method for laway sales.
Caliper Technologies	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Expected 2.3 million. Wire -The company recorded a cumulative charge of 2.3 million in the quarter ending March 31, 2000. The impact of change in accounting was to increase net loss by 1.8 million or .09 per share. (Had the change in accounting been adopted as of Jan 1,1999, revenue for the quarter ended March 31,1999 would have increased by $117,000 or decreased proforma net loss by .01 per share. 10-Q 5/15/00)
Career Education	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Evaluating, but do not expect impact to be materail. 10-Q Said policy was in compliance with SAB 101, however, the company recognized a cumulative net of tax charge of .8 million in the first quarter of 2000 in order to be in compliance with the guidance of SAB 101.
Cendant	Reported Cumulative effect of accounting change, prior years will not be restated.	The company adopted SAB 101 as of Jan 1, 2000 and recorded a non-cash charge of approximately $89 million (56 mill after-tax) for the cumulative effect.
Cephalon	Reported Cumulative effect of accounting change, prior years will not be restated.	Expects to report a change in priniple and to record it as a cumulative effect. Do not know the amount of the change yet.
Checkpoint Systems	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Stated evaluating impact and if determined material will record cumulative adjustment. 10-Q The company has changed its accounting method for recognizing revenue on the sale of equipment where post-shipment obiligations exist. The cumulative effect of the change is a non-cash reduction in net earnings of 5,020,000 or .17 per diluted share.
Concorde Career Colleges	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K The company estimates the cumulative effect of the change will be $200,000 reduction of net imcome after tax, or .03 per

Crosswalk.com	Reported Cumulative effect of accounting change, prior years will not be restated.	The cumulative effect of this change is to increase the accumulated deficit by 1.4 million at Jan 1, 2000. Had the change been made Jan 1, 1999, revenues for the year would have been reduced by 2.2 million and net loss increased by 1.4 million. (10-Q says Jan 1, 1999 net loss for the first quarter would have increased by .2 mill or .04 per share.)
Datalink	Reported Cumulative effect of accounting change, prior years will not be restated.	Accounted for change in policy prospectively as of Jan 1 2000 and recorded a charge to earnings of $574,000. (600,000 - 10-K) During the three months ended March 31, 2000 7.0 million of revenue was recognized that had been deferred as of Jan 1 2000 as part of the cumulatve effect of change in pricinple. 10-Q
Equity Inns	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Simply states SAB 101 will not affect the company's revenues on an annual basis, but will materially affect them on an iterim basis (Wire states same 4/28/00). 10-Q The effect of the change on the three months ended March 31, 2000 was to decrease lease revenues by 6,740,412 and therefore net income applicable to common shareholders by 6,521,989. (.18 per share basic and diluted)
Exelixis	Reported Cumulative effect of accounting change, prior years will not be restated.	The cumulative effect of this change in accounting principle will result in an aggregate decrease to revenues previously recognized of approximately 3.1 million in the first quarter of 2000. This amount will be recognized as revenue prospectively over the remaining terms of the collaboration agreements. (Bear) The wire simply stated the company reported its second quarter financial results in accordance with SAB 101 -8/8/00)
Galagen	Reported Cumulative effect of accounting change, prior years will not be restated.	Record cumulative effect adjustment for change in accounting, expected to be charge to earnings of $730,000 applied first quarter. 10-Q stated-charge of $700,000 to applied second quarter.
Galaxy Enterprises	Reported Cumulative effect of accounting change, prior years will not be restated.	The cumulative effect adjustment recognized in 1999 amounted to 5.26 million (10-K) or 5.45 million (10-Q).

Haverty Furniture	Reported Cumulative effect of accounting change, prior years will not be restated.	Management adopted the new method of accounting effective Jan 1, 2000. The cumulative effect of this change in accounting will be to decrease net income by approximately 3,356,000 or .15 per share in the first quarter of 2000.
Immune Reponse	Reported Cumulative effect of accounting change, prior years will not be restated.	The company expects the impact of change to be app. 10 million to 15 million charged to the Company's results of operations in the second quarter of 2000.
Infospace	Reported Cumulative effect of accounting change, prior years will not be restated.	Adopting SAB 101 Jan 1, 2000. Estimate that approximately 700,000 in revenue would have been deferred and recognized in 2000 and 2001. Company will record a cumulative effect of change in accounting principle. Wire article stated that the company's practices comply with SAB 101.
Integra Lifesciences Holdings	Reported Cumulative effect of accounting change, prior years will not be restated.	Company anticipates that a change in its polic will result in a cumulative effect adjustment after-tax charge estimated to range from $1.3 mill. (10-K) 1.3mill to $3.2 million, will be implemented second quarter 2000 (10-Q).
Interliant	Reported Cumulative effect of accounting change, prior years will not be restated.	The company recorded a cumulative charge of 1.2 million to reflect the change in accounting principle. (10-Q) (10-K Believed no material impact would result)
KMC Telecom Holdings	Reported Cumulative effect of accounting change, prior years will not be restated.	The company, in accordance with SAB 101, recorded a cumulative effect of change in accounting principle of 1.7 million as of the quarter ended March 31, 2000. 10-K estimated 2.2 million
Macerich	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Company expects a significant defer recognition fo a significant amount. 10-Q The cumulative effect of this change in accounting principle, at the adoption date of Jan 1, 2000, was approximately 1,750,000.
Malan Realty Investors	Reported Cumulative effect of accounting change, prior years will not be restated.	The company elected to adopt the provisions of SAB 101 in 1999. The cumulative effect was a reduction in percentage rental revenue of approximately 522,000 as of Jan 1, 1999. The 1999 financial information has been restated to confrom with the provisions of SAB 101.
McGrath Rentcorp	Reported Cumulative effect of accounting change, prior years will not be restated.	The cumulative effect of changing to a new method of accounting effective Jan 1, 1999 was to decrease net income by 1,36,000 (883,000 net of taxes) or .10 per diluted share.

Metris Companies	Reported Cumulative effect of accounting change, prior years will not be restated.	SAB 101 resulted in a one-time, non-cash, net charege to earnings of 3.4 million which is reflected as a cumulative effect of accounting change in the consolidated statement of income.
National Data	Reported Cumulative effect of accounting change, prior years will not be restated.	The company recorded in compliance with SAB 101 a cumulative after-tax effect of change in accounting principle of 13.8 million, (net of tax 8.6 million) on June 1, 1999. (.41 per share)
Per-Se Technologies	Reported Cumulative effect of accounting change, prior years will not be restated.	The company recorded a one-time cumulative charge in the company's March 31, 2000 statement of operations will be approximately 23 million on a net of tax basis. 10-Q states 22.7 million. Wire states 37.7 million.
Quidel	Reported Cumulative effect of accounting change, prior years will not be restated.	Record a cumulative pre-tax charge of approximately $1mill (10-K) $900,000 or (10-Q) when company adopts provisions of SAB 101 in second quarter 2000.
Ramco-Gerschenson Properties	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K The company will adopt provision and report a cumulative effect of a change in principle as of Jan 1,2000 of 1,193. 10-Q -The company has elected to adopt the provisions as of April 1, 2000 and report the change of approximately 1,260 of contingent rent receivables as a cumulative effect of a change in accounting principle.
Simon Property Group	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K Adopt SAB 101 Jan 1,2000 and record a loss from cumulative effect of change in principle of 13 million. 10-Q Adopted SAB 101 effective Jan 1, 200 and recorded a loss from cumulative effect of an accounting change of 12,342. The company estimates the pro forma negative impact of adopting SAB 101 on combined net income for the three months ended March 31, 2000 to be 5,000. (.02 per share) (Wire simply states what effect would be in 1999 -May, 9 2000)
Southwest Airlines	Reported Cumulative effect of accounting change, prior years will not be restated.	Changed method to account for the sale of mileage credits. As of Jan 1, 2000 the cumulative effect of this accounting change reduces net income by $14 million net of tax. If this had been adopted in 1999, net income would have been reduced by $3.9 million. 10-K (Wire said 14 million but stated not material)

TJX Companies	Reported Cumulative effect of accounting change, prior years will not be restated.	The company recorded a one-time, non-cash, after-tax charge of 5.2 million in the first quarter of 2000 for the cumulative effect of the change, .02 per share. The company restated its earnings for the first three quarters of the fiscal year ended Jan 29, 2000.
Towne Services	Reported Cumulative effect of accounting change, prior years will not be restated.	The company reported a cumulative effect of an accounting change during 1999 in the amount of 3.2 million related to revenue recognition of its initial set-up fees.
Tularik	Reported Cumulative effect of accounting change, prior years will not be restated.	During the quarter ending March 31, 2000, the company adopted SAB 101. The impact of the change in accounting prinicple was to increase net loss by 4.4 million (.10 per share), net of the .4 million of the related deferred revenue that was recognized as revenue during the quarter.
UAL	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K The company will recognize a charge for the cumulative effect of a change in accounting principle. 10-Q and Wire Recorded a charge of $209 million net of tax during first quarter 2000. (Change would have impacted 1999 first quarter revenues by $7 million. -just in 10-Q)
Ultratech Stepper	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K stated the company anticipates that it will report a cumulative significant charge. Wire & 10-Q The cumulative effect of the change in accounting principle 18,883,000 (.88 per share basic and diluted) was reported as a charge in the quarter ended March 31, 2000. The company substantially changed its operations to implement SAB 101.
US Airways Group	Reported Cumulative effect of accounting change, prior years will not be restated.	Recognized a $103 million, net of taxes, cumulative effect charge on January 1, 2000.
Weiners Stores	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K The company estimates that in year of adoption about 1 to 2 million of revenue will be deferred into the following fiscal year. 10-Q The company recorded during the first quarter of 2000 a cumulative effect adjustment for a change in accounting in the amount of $294,000 and recognized additional gross revenues of $851,000.
Whitehall Jewelers	Reported Cumulative effect of accounting change, prior years will not be restated.	The company has reported a charge of approximately 5.0 million, 3.1 mill net of tax, which has been recorded as a cumulative effecy on Feb 1, 2000. (10-Q said 3.0 mill net of tax)

Winston Hotels	Reported Cumulative effect of accounting change, prior years will not be restated.	10-K SAB 101 will materiall impact the company's revenue recognition on an interim basis and to a lessor extent on on an annual basis. Wire - As of March 31, 2000, the company deferred revenue totlaing 6.0 million, and also recorded a cumulative effect of change in principle totaling .7 million. 10-Q 5/12/00 Deferred revenue as of March 31,2000 totaled 5,983.

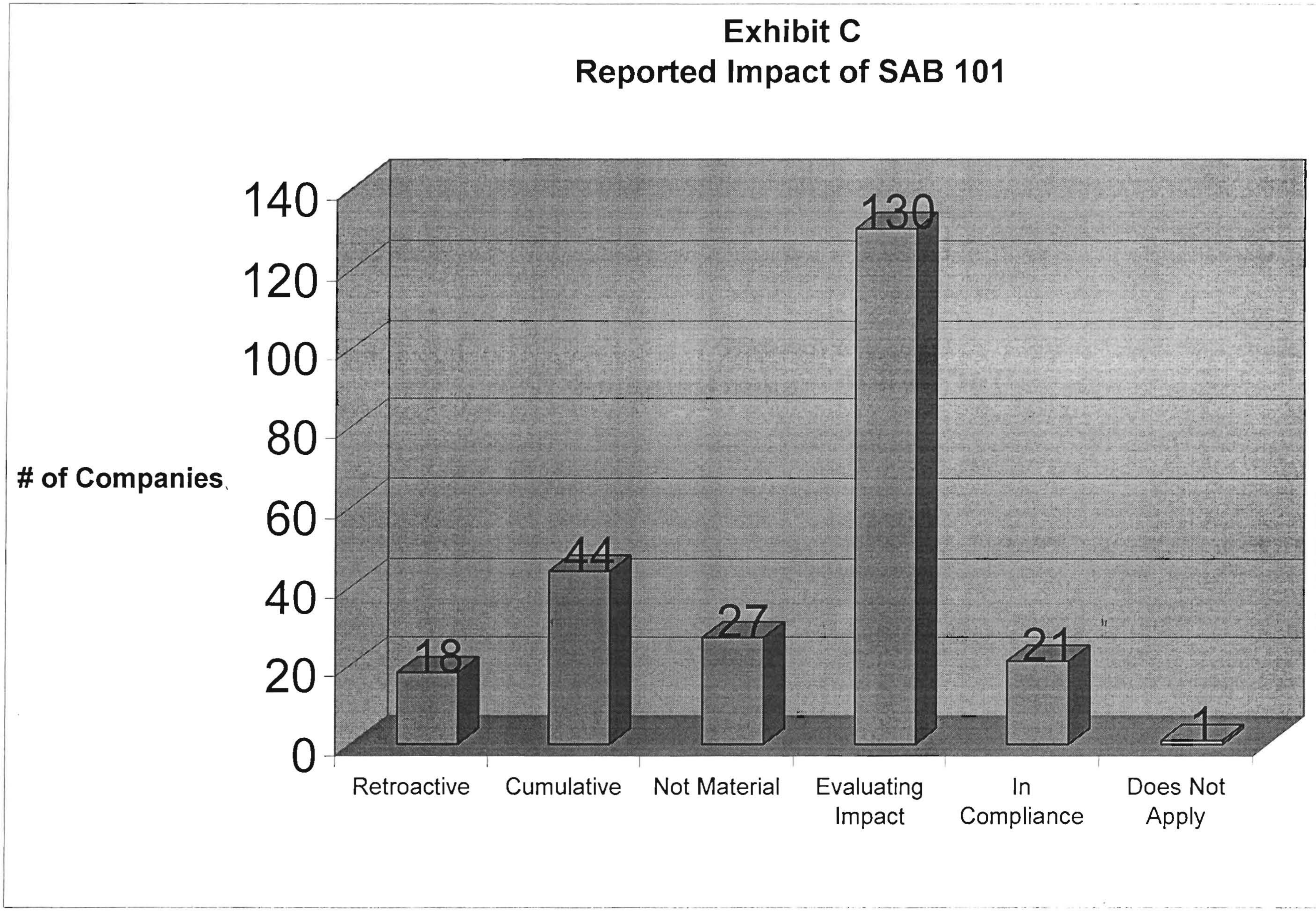

Exhibit C
Reported Impact of SAB 101
# of Companies
140
120
100
80
60
40
20
0
18
44
27
130
21
1
Retroactive
Cumulative
Not Material
Evaluating Impact
In Compliance
Does Not Apply

Exhibit D
Total Operating Revenue

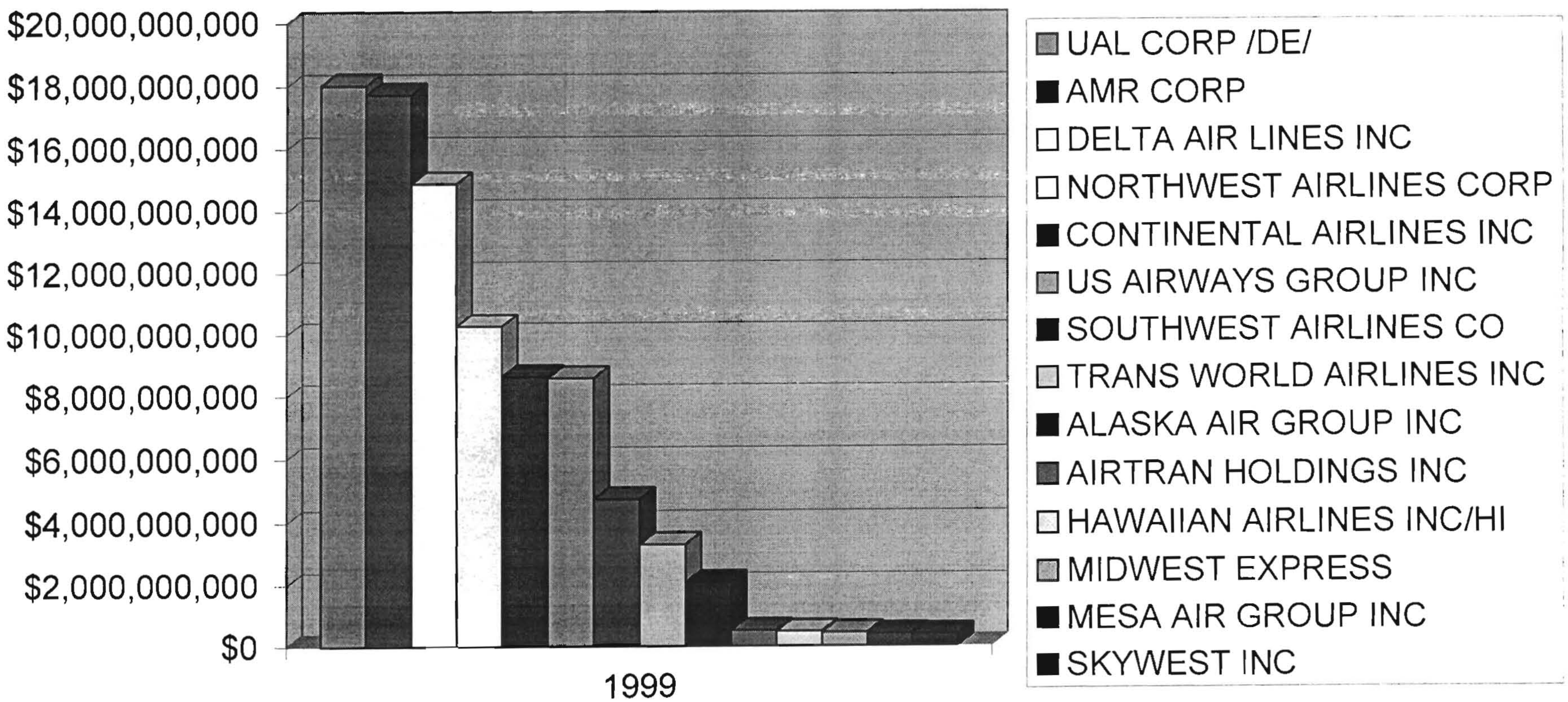

Exhibit E
Net Income

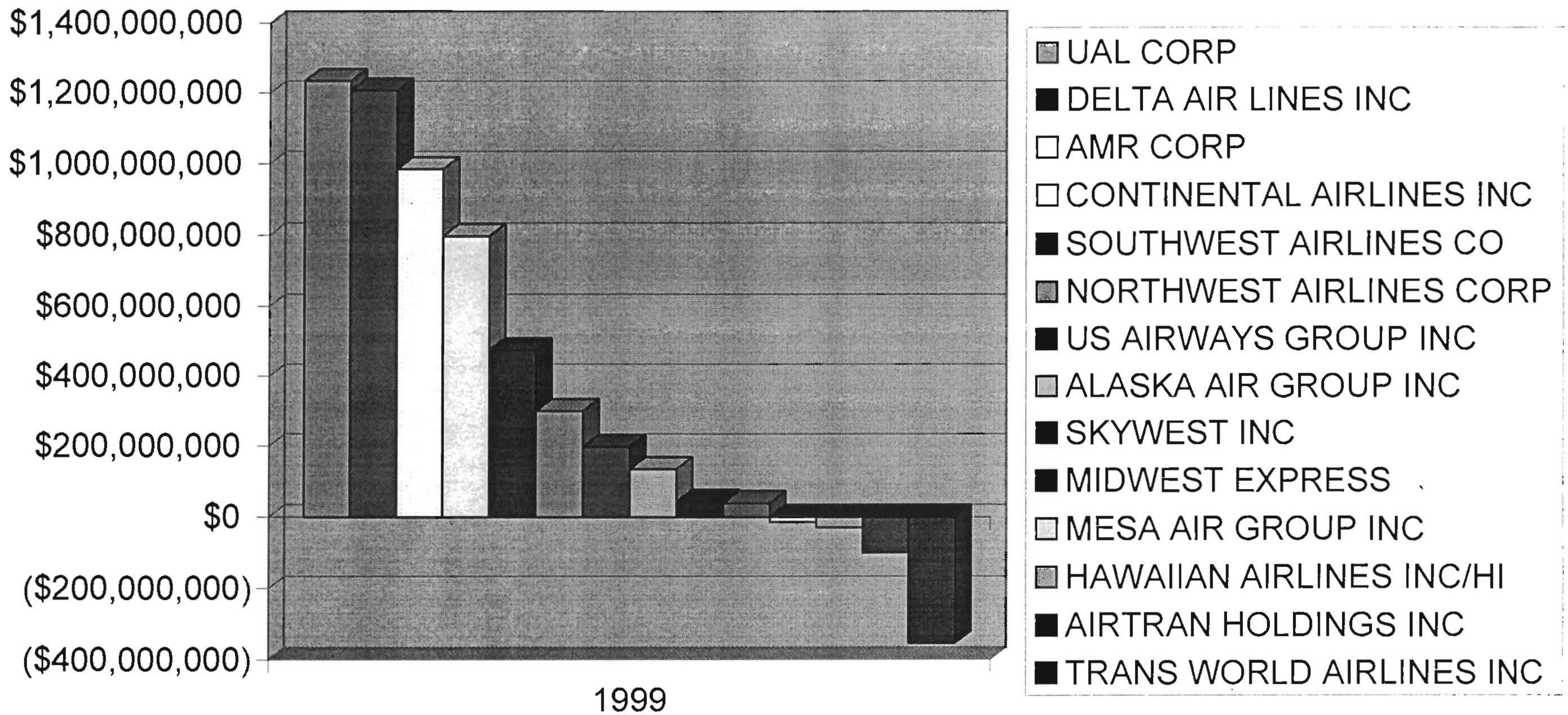

Exhibit F
Event Study Methods

For each security, the effect of the event in question on returns is estimated using the mean adjusted return. The daily prior estimation period used is 5 days preceding the first event and the daily after estimation period used is five days after the first event. n=(-5, +5).

For each firm or portfolio, the measure of excess return is estimated as follows:

ERi = FRi - MRi

where ER is excess return, FR is firm return, and MR is market return defined on each day of the estimation period.

The mean adjusted returns for the excess returns for each day in estimation period are estimated as follows:

A1 = sum(ERi,t)/14

where I = day in estimation period, t = firm. And, the mean adjusted return for the portfolio is estimated as follows:

A2 = sum(A1i)/8

The standard deviation for the portfolio of excess returns is estimated as follows:

S(A2) = [sum(A1i-A2)2 / 8]1/2

The t-statistic for any event date i are defined as:

ti = A1i/S(A2)

The cumulative t-statistic can also be found by taking:

t(-1,0-1) = sum(A1(-1,0,1))/(k1/2*S(A2))